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The Valuation Base for Ad Valorem Taxation

VOL. VII, No. 1 JANUARY 1939

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The JOURNAL *of the*

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

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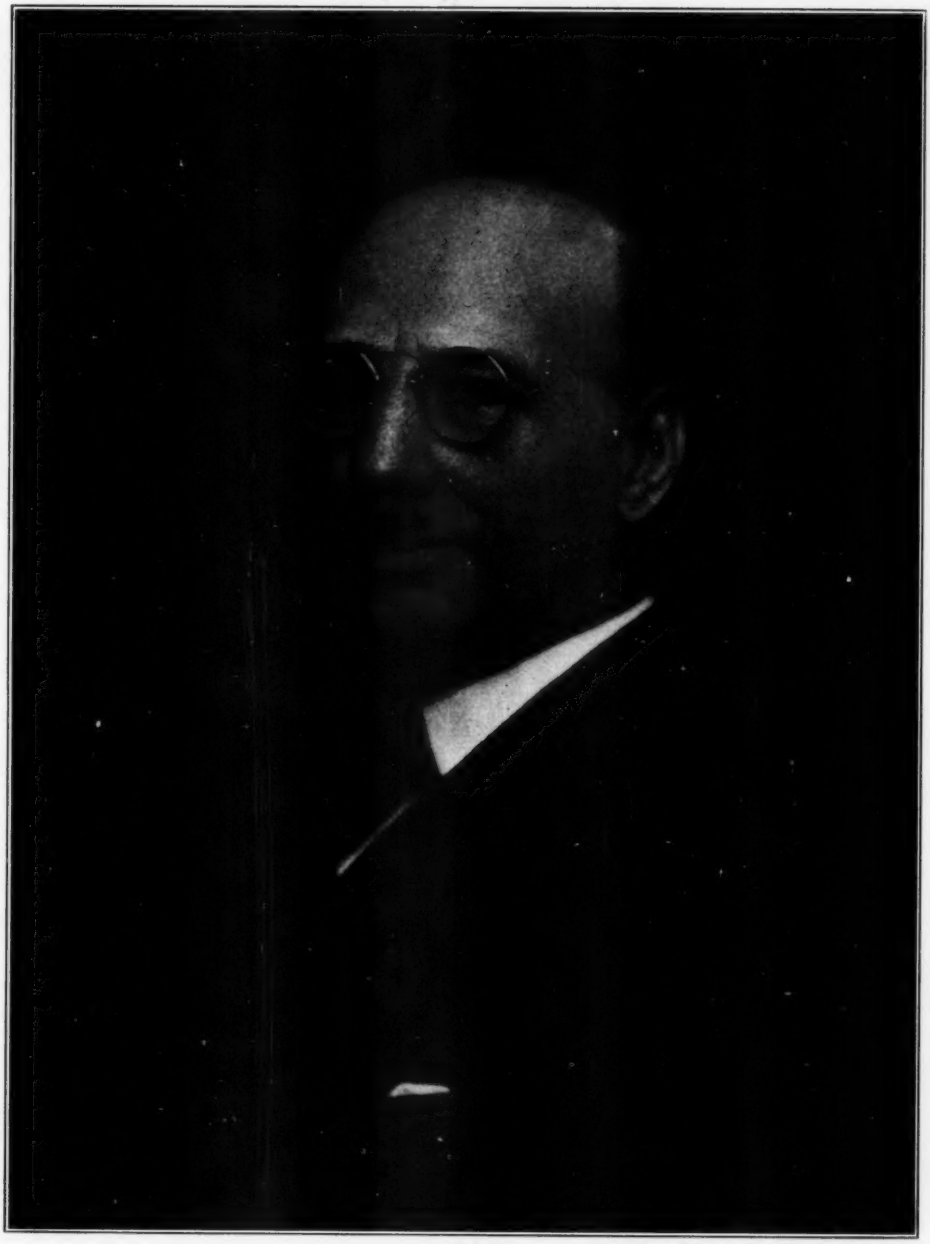

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• With the Editors •

"UNSIGHT, UNSEEN"

IN late December, newspapers throughout the country carried screaming headlines of another financial swindle that rivaled the disclosures that were so common in the immediate wake of the nineteen-twenties. But this time it came as a distinct shock to bankers, industrialists, and the "man on the street." We had thought we were beyond all this—that we had made such a fiasco impossible under our new economy.

Here was the case of a huge drug concern whose books of account reflected vast inventories of raw drugs, which in fact were wholly fictitious, and recorded these as stored in extensive warehouses, which in turn were found to be nonexistent. Certified audits had been regularly prepared, accounting rules had been subscribed to, governmental regulations had been followed—but no one was ever sent out to inspect the property!

Now, the *proof of actual existence* would seem to be the most elementary requirement in the reporting upon a business enterprise. Any ten-year old schoolboy will count his marbles before he tries to place a value on them in exchange—and under any circumstances he will count the other boy's before a deal is made. And yet both private industry and public authority continue to be satisfied with the other fellow's "count" and will enter into a trade "unsight, unseen"—just as long as the figures add up correctly on the books of account.

No accounting system has ever been devised which will accurately control the additions, deductions, and operating changes in fixed assets—at least for any material length of time. Periodic inspections are essential in keeping the property record up to date. Even merchandise inventories have a strong tendency to grow or shrink all out of proportion to the net differences in purchases and sales over any certain period. Wise management has long since learned the lesson of shrinking inventories and hence has installed the policy of a physical count at the close of each fiscal year. Usually, of course, this count is made by a firm's own employees, and, accurate or otherwise, it lacks in the acceptability to be accorded the check and report of disinterested parties.

The independent appraiser is criticized from time to time for errors in judgment of values. There are occasions, of course, when such criticism is proper. As long as the human element is involved, there can never be exact agreement in all matters of valuation, even though great strides are being taken toward standardization of practice which narrow the zone of error. However, the appraiser at least goes directly to the property before he tries to report upon it. He makes an actual inspection—takes his count; describes the property as it exists; and then uses this as his fundamental starting point. Whatever error he may make thereafter is subject to independent check.

Perhaps the national publicity accorded this fantastic case may turn it into a real boon for industry and the public as a whole if it brings—as it should—a better understanding of the need for property verification and inspection. The Securities and Exchange Commission has broadened powers under the new Chandler Act that permit a greater control over industrial reorganizations. It would appear that the first step by the Commission would be directed toward the strengthening of its

position whereby appraisers and appraisals would be accorded a proper place and function in the rules and regulations. At the very minimum it would seem that every audit, no matter how complete, should be accompanied by a statement of property verification and condition by a properly qualified and disinterested appraiser, whether or not his opinion of value is required or accepted.

●

CRITICS OF THE MARKET

IN Bonbright's very interesting book on *Valuation of Property*, reference is made, in discussing concepts of property value, to the appraiser as a critic of the market. That reference touches a vital spot in appraisal thought and procedure.

The idea is advocated by many that more weight should be given an appraiser's opinion of the value of a particular property than to that of a trader because the appraiser does criticize market conditions. In so doing he reports an estimate of value of "not what the property could presently be sold for, but what, in the appraiser's judgment, the property *would* sell for, were the market composed of (a) intelligent individuals who (b) were interested in buying and selling the property only by reference to its investment merits." Bonbright says that such a concept has been called "true value" (to distinguish it from market prices which are thought of as "fictitious"), but should more properly be regarded as a *hypothetical* market value. He points out that, unfortunately, some courts and appraisers call this value concept "market value" or "fair market value," ignoring the above important distinction.

This distinction is important. There is here no place for an argument or a treatise on definition of "value," but this is the proper place to point out that the appraiser who uses very commonly the term "market value" should think and express himself clearly as to precisely what he means by "value" as used in his appraisal report. Does his use of the word "value" imply merely a reflection or a critical view of the market? Any vagueness on this point will undermine the worth of the appraisal.

It is a vastly greater task to criticize the market than merely to reflect it in a valuation. The appraiser owes to his client an explanation as to which concept he has used.

Without such an explanation, the client is at a loss to know what adjustment, if any, he should make to meet his own personal investment problem. This is especially true of institutions owning a considerable amount of real estate, the management of which is bound by some legal restrictions. Appraisers for such institutions and for all other clients should state clearly whether the value estimated is a market phenomenon or, if not, just what the value concept does mean.

●

REAL ESTATE IN THE NATION'S BALANCE SHEET

BASED upon statistics compiled by the Department of Commerce, N.A.R.E.B. some months ago reported that the total national wealth approximated 430 billions of dollars, of which about 188 billions (or nearly 45 per cent) consisted of real estate. The estimates covered both farm and nonfarm areas, the real estate statistics including residential, commercial, and farm properties—both improved and unimproved—but excluding railroad, public utility, and industrial real property.

In the light of these estimates we have rather freely broadcast the conclusion that real estate constitutes perhaps 50 per cent of the total national wealth today. This seemed reasonable when the changes in relationships since 1930 were considered wherein real estate had presumably held up much better than other forms of investment.

Anyway, it got by very well until we received a jolt the other day from one of our nationally prominent M.A.I.s, who seems to have been studying the problem on his own account. He knocks the estimate full of holes and concludes that real estate today represents not over 20 per cent—and probably nearer 12 per cent—of the total wealth of the nation. He takes the position that true wealth must be measured upon the income-producing ability of the property and the consequent relative purchasing power in terms of other commodities.

We must admit that there is merit in his argument. The Department of Commerce estimates adopted "Taxed Real Property Value" as the measure of real estate wealth; but this M.A.I. points out that the excessive burden of taxes on real property is a tremendous discounting factor. This, we are told, accounts for the large difference in the estimates.

Taxes, of course, are usually looked upon as expense—and probably justifiably so. In theory, however, they pay for the costs of public service and protection of government, and thus guarantee the permanence of property rights and hence tend to stabilize—if not actually to increase—wealth. Assuming that taxes were properly spent, it might be more logical to state that the burden of taxes reduces private equities in real estate, but not the real estate wealth itself. It might also be pointed out that purchasing power is reflected in the very taxes collected. It is simply a question of who is going to do the buying.

To some extent the same would be true of other items of expense, such as insurance and management. Carried to the full extreme, every dollar of expense incurred in the operation of real estate (save perhaps the ravages of depreciation) tends to create other wealth. The purchase of fuel and supplies adds value to the mine; and the sources of supply—and even the cost of labor—develop purchasing power that goes into wealth-producing channels.

Here, however, is food for thought and speculation. Where are we to draw the line and say, "This is Real Estate"? In the final analysis, we are led back to the soil for the basic elements of all wealth. Three things are essential in building up the asset side of the nation's balance sheet—the *land*, together with the *capital* and *labor* which are needed in making it productive. And it surely cannot be denied that real estate, as such, is assuming too much of the tax burden. Under this maladjustment, equities decline, incentives are taken away, and values fall. But we submit that this, in turn, causes ultimately a diminution in *all* wealth; it is not real estate alone that suffers.

The vast national wealth, which we have accumulated over more than 160 years of our national existence, has resulted from the spontaneous expression of the individual—from the creative opportunity offered by a democratic form of government under a capitalistic system. Increasing taxes, and especially an unfair distribution of the tax burden, undermine the incentive for individual progress and thus tend to impair our total wealth—a far more serious thing than a mere shift in equities.

It is doubtful, therefore, whether the unbalanced tax load really changes the wealth relationships—whatever they may be—although we admit that the fellow who pays the taxes may be hard to convince.

VIEWING FROM ACROSS THE STREET

ONE of the great life insurance companies, which is and has been active in residential financing, provides for the use of its valuators a lengthy memorandum entitled, "Instructions for Guidance of Home Appraisers," prepared by one of the outstanding appraisal authorities of the country. After defining terms, a discussion is entered into under the heading of the three popularly accepted appraisal approaches. Finally, the following suggestion appears:

> "It is important that after having assembled and analyzed the data by all the methods above suggested, the appraiser then walk across the street, look at the property, ... note the surroundings up and down the street in both directions and . . . . ask himself: 'What is this property worth?' "

But, remember, the instructions do not say, "Get out of your car, walk across the street, look at the property, note the surroundings, and ask yourself, 'What is this property worth?' " The heart of the entire procedure, the thing that gives direction and meaning to the process, is the phrase, "after having assembled and analyzed the data by all the methods above suggested."

After sounding this self-evident word of caution, let us consider again the implications of the suggestion, ... "walk across the street, look at the property, ... note the surroundings . . . ."

Every man who has had long experience in appraisal work knows that there is a final "off-the-record" step in his individual appraisal process, possibly the most important of all; it is the appraiser's own intuitive satisfaction in the final result of his effort. Possibly the collection of data has been thorough and complete, the analysis and correlation intelligent and sound, but still the final estimate simply does not "click." The appraiser cannot put his finger on the difficulty, but he is not quite satisfied with his valuation.

It is at such a time that the "view from across the street" is needed—the opportunity to take the larger perspective, to stand and think about all of the factors in the situation, to weigh and counterbalance, to narrow the upper and lower limit possibilities, to test the soundness of a tentative value estimate against all of the conflicting evidence that can be found—until, presto, you have the answer. There is no longer, to your way of thinking, any "if" or "and" about it!

Something of the same experience in the field of law was expressed by an eminent jurist in a recent article widely quoted:

> "I, after canvassing all the available material at my command, and duly cogitating upon it, give my imagination play, and, brooding over cause, wait for the feeling, the hunch—that intuitive flash of understanding which makes the jump-spark connection between question and decision.
>
> "And more, 'lest I be stoned in the street' for this admission, let me hasten to say to my brothers of the bench and of the bar, 'My practice is the same as your other worships.' "

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THE VALUATION BASE FOR AD VALOREM TAXATION

H. O. WALTHER, M.A.I.

The ever-increasing burden of taxes constitutes America's greatest "headache." We have often heard the saying: "Everybody kicks about taxes, but nobody does anything about them." But Mr. Walther here brings us a ray of hope. His article points the way to constructive thinking and action on the question of valuation. Perhaps if we can solve this phase successfully, the larger problem of property tax reduction can be approached more intelligently.—Editors.

TAXATION is a practical matter. To those who are uninformed, it seems to be a necessary evil. Those who do understand shudder to see the ever-mounting level of taxation. Prejudice is almost instinctive.

This discussion concerns ad valorem taxation, and we are not concerned, therefore, with the general level or amount of taxes assessed against real estate. These are matters which concern themselves with expenditures for the functions of government on the one hand and with the equitable distribution of the costs thereof on the other. If you can divorce these two important considerations from your thoughts for the moment, we can discuss ad valorem taxes with a free and open mind.

Whether the ad valorem tax on real estate is a good or a bad tax is a matter of opinion. There are many who believe that income taxes meet the ability-to-pay principle better than do ad valorem taxes. What is not a matter of opinion is the fact that we have ad valorem taxation of real estate for the purpose of providing a large part of the expense of local government in every state in the Union, and there are many indications that we are going to continue to have it for many, many years to come. The attempt to do away with ad valorem taxation would, in the opinion of many students of the subject, be a futile effort. This does not, of course, mean that the amount of taxes raised through the assessment of real estate cannot be reduced, but to do away with the system entirely seems to be a task which cannot be achieved for many years at least.

The ad valorem tax on real estate is not a bad tax per se. It is a tax based upon the value, and value represents wealth. Certainly, wealth indicates, at least in a measure, some ability to pay. Many students of the subject agree that those who are the ablest to pay should provide the largest proportion of taxes. In theory, therefore, it seems that the ad valorem tax on real estate has many of the earmarks of being a first-class tax. It must, however, have some shortcomings, or there would not be so many people who seem disgruntled

about it. As far as we have been able to ascertain, these shortcomings are not in the system itself; rather, they are, first, questions of administration and, secondly, questions of valuation. Questions of administration make an interesting story in themselves, but we shall be forced to overlook them and stick as closely as possible to questions of valuation.

THIS TERM "VALUE"

It may be stated initially that all of the so-called approaches to an estimate of the value can be employed in ad valorem taxation. The so-called cost, comparison, and income approaches are all included, and all should be given the proper weight. All that we know about this matter of valuation is, and must necessarily be, employed in ad valorem taxation. Not only all we know, but all we ever shall know, is necessary to bring about the best results.

Value has been defined as: "The present worth of all future benefits arising out of ownership to typical users." To define it another way: "Value is that sum of money which an intelligent purchaser with knowledge of all the facts will pay and an intelligent seller with knowledge of all the facts will accept in an open competitive market." For all practical purposes these two definitions are synonymous. Both definitions bring into play the market phenomena. In the one case, typical users make up the market; in the other, intelligent people are operating in an open, competitive market.

The tax laws of the various states usually try to modify the word "value" by some appropriate qualifying adjective. In Illinois, for instance, it is "fair cash value"; in Ohio, "true value in money." It is commonly agreed by students of the subject that, regardless of the adjective, the legislators had in mind what we think of as "market value."

UNIFORMITY

Since our foregoing definitions contemplate value in the market place, we now have defined our real objective. If we look at this objective carefully, we find that we have nothing different from what is present in any appraisal of the value. Under such conditions, we certainly cannot say that it is an insurmountable task. There are some problems, however, in connection with an appraisal of the value for assessment purposes which cannot be overlooked. One very important problem is that of *uniformity*.

Without uniformity, it is virtually impossible to get popular support. Every appraisal must satisfy not only the owner of the particular property, but all property owners, because it is almost certain that the property owners of a community will be displeased if all are not treated upon the same basis. Because of the necessity of uniformity, a great number of rules must be made. While appraisers in general agree that one cannot appraise the value of real estate by a set of rules, it seems absolutely necessary in a mass appraisal of the value for assessment that rules be set up for uniformity purposes to justify and to explain the method of approach to all property owners. These rules necessarily should not be arbitrary. Unfortunately, in many communities they seem at this time to be somewhat arbitrary—based either upon tradition, custom, or ignorance. There is no good reason why intelligent people cannot work out rules that represent the best experience in their community. Certainly, men who have been actively engaged in the real estate business in one community for twenty or thirty years should be able to indicate what rules will produce results which tend toward equitable valuation. Somewhere in their experience they should be able to pick out numerous instances in

which clients paid something more for a deeper lot than for a lot of standard depth, and these experiences can be translated into depth tables which meet actual conditions in the community. These men should know the relationship of stores on corners and stores away from corners and, therefore, should be able to comment on the corner influence increment. Similarly, the rules which often obtain with respect to alleys and calculations in connection with parcels of land of various shapes can be worked out according to the best experience available in the community. If it should happen that there is no experience upon which to base such rules in a particular community, then logic should be used, or rules successfully employed in other places—rules which are in keeping with the times and which seem to have given reasonable results — should be applied.

DEPTH TABLES

One of the most important applications of so-called "rules" is the depth table. Experience in most communities indicates that the added value for depth is materially less than it was twenty-five or thirty years ago when people still had horses and believed in having vegetable gardens—and hence desired a deeper lot. Depth tables customarily start with a standard depth, which under ordinary circumstances should be the typical depth of lots. Most communities have some predominant depth depending upon local custom and the method of subdivision. In Chicago, for instance, the typical depth for residential property is 125 feet; in another community it may be 150, 120, or 110 feet. It does not make a great deal of difference what the standard depth is as long as it provides a usable parcel. The important thing is that the depth tables worked out for the particular community tend to represent, at least, actual conditions. A depth table worked out for some other community some twenty or thirty years ago will not do this, yet standarized tables are being regularly used at the present time in this country under conditions frequently entirely foreign to those existing when or where originally evolved.

CORNER INFLUENCE TABLES

Similarly, the corner influence tables should not be arbitrary. Experienced individuals can work out the relationships between land value on a corner and that in the center of a block and, from the tendency shown by this relationship, set up corner influence tables. Obviously, such tables cannot be considered exact rules; but, if they tend to indicate the proper relationship, the much-sought objective is accomplished. If, for instance, it is found that corner influence in a certain community extends only 50 feet from the corner, instead of 100 feet, as it is supposed to in some communities, the rule can be made to apply to 50 feet only. The essential thing is that rules should not be arbitrary but should, as far as possible, indicate in an orderly way the actual conditions in the community. What has been said about depth and corner influence tables can be repeated for other so-called "rules," such as alley influence and the computation for lots of various shapes. All such endeavors should be guided by reason and should be confirmed by the best experience in the particular community.

EVIDENCES OF VALUE

In making a mass calculation, the establishment of rules, however, is not the basic task. This is, of course, difficult, but the rules are merely the means to an end. They are guides to help in forming conclusions. The important task is to obtain evidences of value.

The commonly accepted evidences of value are, as you know, sales, offers, asking prices, and opinions. In some communities, under certain conditions, a large number of sales in the open, competitive market are available. In other communities, where no regular procedure for obtaining this information has been set up, sales are not available in any quantity. If they are available, the conditions under which they were made may not be forthcoming. Offers are not usually available in great quantities. Asking prices, while usually available in larger quantities, cannot be relied on as much as recent sales. While these three evidences of value are very important and helpful in the actual making of a mass valuation, the opinions of experienced people should be given a great deal of weight. It is in the matter of opinions that appraisers and Realtors are called upon. Because of this fact suggestions for approach may be appropriate.

SUPPLY AND DEMAND

First of all, you will no doubt think of your old friend—the law of supply and demand. You will say to yourself that you are trying to appraise the value (the present worth of all future benefits arising out of ownership to typical users). This leads you to ask how many typical users there are going to be, which, in sequence, brings up the whole question of the growth of your particular community. A little sober study of this question will, perhaps, lead you to conclusions you do not like to believe. But, whether you like them or not, if the study leads that way, you, of course, will not be guilty of fooling yourself. There has been altogether too much of this sort of thing in this whole tax muddle. You all know of the man who holds values up in his community because, if he were to bring them down, he might not be able to sell the property; and then you have heard of the man who makes his opinions very low so that he can help the people in his community and save money for the property owners. There is no room on the advisory board of the official who is trying to make a mass appraisal of the value for assessment purposes for persons of the types mentioned. Men who are genuinely interested in this sort of thing must, first of all, be honest with themselves.

There are a great many reasons why demand in the future will not be like demand in the past. Restricted immigration, the falling birth rate, and the arresting of the exodus from the farms make a great many people believe that the total population of this country will become static by the year 1960. The President's Research Committee on Social Trends, appointed by President Hoover in 1932, collected a very large amount of evidence indicating the tendency of the population of this country. The conclusion of this Committee was that in a comparatively few years the number of people would not change materially. This in itself should not be depressing because it is the philosophy of our government and of many thinking people that we should have a higher standard of living. We cannot, of course, maintain a high standard of living with a large percentage of unemployment.

While this static situation may not affect a particular community, it nevertheless indicates a lack of demand for real estate as a whole. It indicates further that any demand for new developments must necessarily be at the expense of older property because there is no new population to inhabit the vacated, older developments. In our larger communities, furthermore, a district mutation has come about which is crossing up the thoughts of those in the "old school." It was formerly believed that downtown dis-

tricts would continually expand—spreading ever outward like the spokes of a wheel. But now, for the most part, that sort of mutation has been arrested, and, instead of spreading, business districts are jumping miles and miles out to populations of greater purchasing power which have been tending toward the suburbs for the past quarter century. This removal of business has had a serious effect and will undoubtedly continue to have a serious effect on the central business areas of our communities.

It appears, therefore, that there are serious problems in connection with the sustained demand for land in downtown areas as well as elsewhere in the community. Too often in the past we have, unfortunately, worked under the conditions generally accepted 160 years ago. Adam Smith, the "Father of Economics," and his followers based their thinking upon the assumption that there was an ever-present demand. For example, in the downtown area of Chicago, land value has been established in certain areas by office buildings built 264 feet high from the street level and, in some instances, with towers set back and extended many stories higher. At one time these buildings paid a fair net return. Based upon this return, the land received its value as a residual claimant on the income. Based upon this land value, other parcels of land—according to our principle of uniformity—would have the same value because other buildings could be erected similar to the one in question and would have similar returns.

All of this is predicated upon the assumption that all of the space in the buildings could be rented. It is obvious that, if in any downtown area such construction were to go on indefinitely, there would eventually be nothing left for any of the properties. Therefore, without a demand for additional structures such as the one which is paying a return, two conditions might exist. Perhaps the other land has another use; if so, the value must be based upon that use; or perhaps there is only a potential demand that will not come into play for some years to come; consequently, a discounting process is involved. It should be apparent then that, without an existing demand, adjacent land cannot be based upon value determined by the residual left for land on an existing structure. This conclusion must lead one to a lower land value than that which seems to be indicated by a building which may have the advantage of an early start.

And right here you may properly wonder how one can get uniformity under such conditions. The answer lies in a real understanding of demand and supply and an appreciation of the fact that existing real estate is in constant threat of being destroyed by oversupply. With this understanding, it is not extremely difficult to obtain uniformity—even though, at first blush, land under existing structures points to a different conclusion.

While we have used office buildings as an illustration, the same conditions may exist in every type of real estate. When single-family residential sections are on the decline, there is usually some thought that the land is shifting to apartment house use, and owners believe that their property is ready for apartment house development. Without demand, certainly a great number of these owners must wait a long time. Perhaps the desire for this other type of development will never be realized. Their thoughts are influenced by the dynamic history of their own communities as well as of the country as a whole. They do not want to believe that conditions may have changed. It will be a slow process of education, but certainly those who would be appraisers of the value

of real estate must accept the situation for what it is.

And we can turn to other types of property. Particularly, let us select outlying business property. Ten or eleven years ago a little store building was erected in a suburb west of Chicago. The building contained seven stores, which were readily rented to a druggist, a tailor, a grocer, et cetera. Surrounding this new store building was a development of modest homes on rather large lots. For the most part, the area was built up. The land along the main thoroughfare of the section was zoned for business extending for approximately one half mile and including several corners near the suburban electric railway station. Judging from rentals, this little store building seemed to be a successful venture. Because of its success, within a few short years, four or five other buildings containing several stores each were constructed. Some of the space was never rented. Some of the stores did not remain rented for any length of time. The result was that the rentals obtained fell far short of paying a return on the buildings—to say nothing of a return on the land. Today, there is practically no income or value left for anyone. Those who built the additional buildings had no appreciation of the limitations in the demand forthcoming from people occupying homes on comparatively large lots. The man who built the original building was ruined because of the threat of an almost unlimited supply very close to him with no expectancy of a greater demand.

We can turn to subdivisions and find that, when one or two subdividers have had fair success with their developments, others have been encouraged to subdivide, with the result that good farm land has been ruined for farming purposes without compensating gains. Every city of any size has substantial areas of this nature. It is a real task to determine the demand for these premature undertakings. Of course, there is a general tendency outward, but this in turn has its effect on the older parts of the community. And we must not forget the carrying charges for all the years it will take to use up the supply that is the result of an overenthusiastic and optimistic era.

There is still another type of property that should be mentioned. Every large community has a number of railroads, and when we think of railroads we think of industrial property. There are some who now believe it unnecessary to have railroads in order to have industrial property because of the change in transportation methods. Therefore, it can be assumed that the supply of industrial property is almost unlimited. To be sure, some of it is not improved and lacks facilities such as are available in an organized community. During our dynamic days in this country, every community (particularly through its chamber of commerce) thought that there was practically no limit to the amount of industry that could be attracted to it. But, again, sober reflection will indicate the fallacy of such thoughts. Just as in every other type of property, there is bound to be a long carrying process unless something new and unanticipated happens to bring about a much greater demand than is indicated at the present time. Obviously, if one can justify the demand that is necessary to make value for certain uses, then opinions should be based upon those justifications. But it does not seem logical to base any opinions on a glorious past.

There is no intent to advocate something different from value, but rather to bring out that the so-called "value" of property is set at a level much higher than it should be based upon a prudent study of the potential demand. Potential demand

is without question the most important problem we have to deal with in mass appraisals of the value. A thorough understanding of potential demand with respect to truth for truth's sake is absolutely essential in such appraisals.

We have heard a great deal about income from real estate and assessments based upon income. Let us not be confused about assessments made on past, actual, or potential income and the income from real estate as an evidence of value. With respect to income as a basis for assessment purposes, the following is quoted from a paper prepared by John A. Zangerle, Auditor of Cuyahoga County, Ohio, in October, 1935:

> "'Assess on income' is such a glib and smart platitude. But have the interests demanding this ever written a word on procedure or method of calculation? Occasionally we hear such stupid formulas as 'multiply the gross by 3½ or 6 times' or 'multiply the net income by 20 times.' It is worthy of note, however, that none of the many writers, who have sprung up during the last twenty years like mushrooms, offer a formula for even occasional use in this field—a formula, for example, of standard normal expenses for maintenance and insurance, of the number of years income to be considered, of the normal depreciation to be deducted, of the nature of obsolescence, when it may be considered and how much. No formula to which any two owners would agree has ever been suggested or is in use."

This is presented merely to indicate an attitude. In this discussion we are not concerned with income in this sense. We are concerned, however, with what part income plays in a mass appraisal of the value. Certain it is that many appraisers believe that they can come to a better conclusion by giving the net income from a monetary-income-producing property the major consideration in arriving at an estimate of the value. Every informed person will probably agree that expected net income from monetary-income-producing property is perhaps the best measure of that property's value. Apparently, there are those who believe that, in order to give the net income every consideration, all the rules and procedures of appraising the value that have more or less become custom in our communities must be thrown overboard. This is not sound reasoning.

The generally accepted and applied system of mass appraisal of the value is the cost of reproduction of the improvements less depreciation plus land value. This system lends itself to uniformity of treatment and has been accepted by so many assessing officials that to change it would be revolutionary indeed. Certain it is that those who have given the subject a great deal of thought are not prepared to recommend a revolutionary change. The reason for this is that satisfactory results can be obtained by using the system already accepted in most of the progressive communities which claim to have an up-to-date system of assessment. If there are any shortcomings in a mass appraisal of the value made in this way, they certainly cannot be blamed on the system. Proper value can be obtained under the cost-of-reproduction-less-depreciation-plus-land-value system of appraising the value. Certain it is that all the evidences of value and all information, regardless of source, can be used in this system.

Many years ago two approaches to the value of monetary-income-producing property were set up by the writer on a chart. One was called the physical approach; the other, the income approach. The cost of reproduction less depreciation plus land value was the physical approach. The net income capitalized at a rate commensurate with the risk was the income approach. Both approaches properly used would bring the same result. The depreciation item in the physical approach is the one which gives flexibility. We are all aware of the various kinds of depreciation—namely, as resulting from physical, functional, and economic causes. If the net in-

come from a building indicates that there is depreciation over and above what we think of as physical, then the rest of it must be economic and functional—which we sometimes choose to embrace under "obsolescence." Under such conditions, the value of the property, regardless of the approach, necessarily is the same. It may be repeated, therefore, that the cost-of-reproduction-less-depreciation-plus-land-value approach to the value offers no obstacles whatever in making a mass appraisal of the value. If properly used, it tends to reflect the value of the property and makes for that much-sought requisite—uniformity.

THE "TWO PROPERTIES"

With respect to income and the value, it may be well to point out a matter which is considered of extreme importance by the Tax Procedure Committee of the American Institute of Real Estate Appraisers. This matter is of the greatest significance and should be given considerable thought. It is believed that in many cases there are two properties which form or attach themselves to real estate. One of these properties is in the nature of land and building, making its services available in an open, competitive market and with no peculiar advantages. The other property that may attach itself to real estate is something more or less intangible and may be in the nature of a long-term lease (made at a favorable or an unfavorable time) or the advantage that comes from an early start, goodwill, or unusual management. It may be readily appreciated that any income from intangible qualities that attach themselves to real estate should not be given consideration in a mass appraisal of the value. As a matter of fact, these intangibles are not real estate; they are a different kind of property. While it is true that real estate that has these intangibles attached to it may sell for a great deal more, or vice versa, than a similar piece of real estate that does not have these intangibles, all thinking people should agree that the real estate is not the only consideration in the sales transaction. Uniformity also would be exceedingly difficult to attain unless real estate alone were the subject of appraisal. After all, it is ad valorem taxation of real estate that is sought and not ad valorem taxation of intangible property. Real estate has never been considered as intangible.

For example, let us take three loft buildings identical in every way. One was rented on a long-term lease for $600 per month in 1928; another, for $400 per month for ten years in 1933; and the third one is vacant, but, in the opinion of informed people, could be rented in an open, competitive market and kept rented for $500 per month. These three buildings for taxation purposes should have the same appraisal of the value, despite the fact that one of them has an intangible advantage and one has an intangible disadvantage. It is the potential income from the real estate, unencumbered by any intangible considerations, that should be given the greatest consideration.

An actual example is recalled in a Woolworth Store leasehold in a middle western city. The 99-year lease, made in 1925, calls for a rental of $75,000 per year for a parcel of ground approximately 120 feet square. In a recent mass appraisal of the value for assessment purposes there were those who argued that the value of that land was $1,500,000 because $75,000 is 5 per cent of $1,500,000—regardless of the fact that land of similar size and shape almost adjoining this leasehold was obtainable for less than one third of that amount of money and also regardless of the fact that surrounding land could not earn enough to substantiate more than about one third of

$1,500,000. While the value of that lease to the lessor was no doubt considerably more than $500,000, the value lay not in the real estate, but in the agreement between a responsible lessee and the lessor.

This same intangible property that attaches itself to real estate can be illustrated by a large office building. Under certain circumstances, a considerable return may be made on land based upon this type of improvement, but perhaps some of it is intangible in the nature of the advantage of an early start. There can be no question that it enjoys an advantage if it is clearly shown that there is no demand for another building of this type. It is, then, axiomatic that, in a mass appraisal of the value of real estate for assessment, only real estate as it stands in the open, competitive market, with no intangible properties attached to it, should be the basis of the valuation.

INCOME CONSIDERED

Then how can the income from monetary-income-producing property be sandwiched into the cost-of-reproduction process? That, after all, is not so very difficult. Usually, the properties in any major city can be readily classified. Usually, there is an oversupply of one particular type, such as office buildings, hotels, warehouses, apartment buildings, et cetera. A little research will indicate, however, a going level of income—or, if not income, at least a going level of rental. Based upon ordinary, competent management, such going level of rental produces a certain income. Let us say, for purposes of illustration, that this going level of office space is $1.50 per square foot per year. At this going level, one can determine that the value of the property is 25 per cent less than it would be based upon the cost of reproduction less physical depreciation. Under these conditions, there would be an obsolescence factor of 25 per cent, which would bring the result down to the value determined upon an income basis. Upon a basis of the established standard, the other buildings—some poorer and some better—are rated, with the result that obsolescence is given consideration depending upon the income based upon a general level per square foot. This same process based upon a study of operation—operation under ordinary, competent management—can be used in every class of monetary-income-producing property. The general result, of course, is that the value of the various properties tends to be the value which would be estimated in making individual appraisals.

The virtue of a system of this kind is that one can go over the approach in a logical way and disclose the uniformity. What is more important, one can follow custom (in some states, rules) and satisfy the taxpayer. If he must know how the obsolescence factor was established, it is perfectly logical to indicate what the income would be under ordinary, competent management of the real estate itself divorced from any intangible property that may be attached to it. Of course, this all sounds very simple, and, if one goes on the premise that there is sufficient intelligence to distinguish between the two properties that may attach themselves to real estate, there is practically no problem at all. But the fact is that the intelligence or time, or whatever it takes, is conspicuously absent.

While experts who may be strangers in the community may properly offer guidance to local officials with respect to orderly procedure and technique, the greater part of a mass appraisal of the value must necessarily be done locally. Not only should the best appraisers and most experienced men be identified with the task, but all the leaders in the community should be

squarely behind the project. One must never lose sight of the fact that confidence must be instilled in the property owners. If the best appraisers and the leaders in the community stand behind a conscientious effort to make a mass appraisal which tends to be the market value of all the property with due consideration to the requisites of uniformity, the task becomes a comparatively easy one. The leaders in the community must lend their support. The appraisers must give their best counsel to those who are charged with the responsibility of the task. It is the appraisers' sound judgment which finally brings about the proper result. The appraisers must have open minds and real understanding of the fundamentals of value. Any prejudice which may have developed because of the general level of taxation and the proportion of taxes that real estate bears to the total tax load must be divorced from the appraisers' minds. That is a separate matter entirely. The value of the real estate in a community does not make the tax high or low. It is the amount of money expended for government that determines whether the taxes are high or low. The valuation problem is merely one of giving the property owners a chance to pay their proportionate share of the taxes regardless of the level.

Members of the American Institute of Real Estate Appraisers can make a real contribution to their own communities and to the country as a whole by lending every assistance to those responsible for the assessment of real estate. The members should not wait until they are called upon by assessing officials; rather, they should promote this matter of intelligent valuation whenever an opportunity presents itself. It may be a slow process, but little by little truth for truth's sake will reach more people who are interested in bringing about proper mass appraisal of the value of real estate for assessment purposes.

THE APPRAISAL OF RETAIL STORE PROPERTIES

MORRIS GOLDFARB, M.A.I.

It is a far cry from the days of the general store on Main Street to the integrated merchandising units that constitute the commercial centers of our present cities. And as the complexities of modern retail business have increased, so have the appraiser's troubles multiplied. Mr. Goldfarb here presents a most informative discussion that should be enlightening to the "man on the street" as well as to the practical appraiser.—Editors.

A store property may be classified as an investment business property where merchandise is sold at retail to the public. Its usefulness is more or less related to the volume dollar of business done on the premises. The volume of purchasing power, therefore, is the underlying key to its value.

THREE CLASSES OF STORE PROPERTIES

Store properties may be divided into three classes:

1. Neighborhood store properties.
2. Store properties located in secondary business districts.
3. Store properties located in the central business district.

The neighborhood store is usually located in a residential area catering to the needs of the residents in the immediate vicinity. Food stores and service stores are the predominant tenants in a neighborhood shopping district. Such districts arise on the through streets of the neighborhood, or possibly at bus or trolley stops or at street intersections. In the newer divisions, such a street may be set apart by the developer or otherwise designated by zoning laws. Unfortunately, the supply of available area is usually much greater than the neighborhood needs.

Frequently, a neighborhood grocery store will prosper to a greater extent if located by itself rather than in a group with other stores, but such is not necessarily true. The chief requirement of a neighborhood store is proximity to the dwellers. Competition is easily encouraged because of the ease and small amount of capital necessary to open such a store. The corner drugstore may be doing a thriving business, with the result that the landlord is enjoying a greater rental value than the investment may warrant. But this prosperity may be short-lived. The news gets around, and a competitor soon locates on the next corner. In a neighborhood area such competition is ruinous inasmuch as the purchasing power of the section is more or less circumscribed. Thus, neighborhood shopping areas offer the greatest hazards and are often the least stable.

Our second classification of store properties is one located on a secondary business street—a shopping area catering to a district larger than that covered by the neighborhood shopping stores. A secondary business street is usually well built up with stores serving not only the immediate wants of the neighborhood, such as food lines and service stores, but also the general retail needs of the district. It is generally a through street—a thoroughfare connecting the section with the downtown area or leading to the suburbs. The merchants are for the most part individuals living in the district. Whatever chain stores there may be are more or less limited to the food lines although occasionally a Woolworth store, a nationally known shoe chain, or a branch bank appears.

This group of stores affords the greatest problem to the appraiser. Oftentimes there has been a concentration of development in a block or two at the expense of the remaining street, and the estimation of stability may not be a simple matter.

The third classification is the central, downtown business shopping area. This consists of a concentrated development of retail stores catering to the retail needs of the entire community and oftentimes the suburbs of that community. The department stores, the specialty shops, and the national chains are all located in this area. The fronts are, in general, ultra-modern; the manner of merchandising is keen and alert; newspaper advertising is often a part of the expense program. Here the maximum stability is reached. However, these facts do not make the appraisal any simpler.

There is a tendency to fluctuation in rental value on the same block. It is frequently found that rents on one side of a key merchant vary greatly from the rents on the other side. Properly conducted traffic counts may well give the appraiser some clue as to the reason for this.

THE ASSEMBLY OF THE DATA

The appraisal of a store property, regardless of its place in the above classification, requires the assemblage of considerable data. Much information is stored in the mind of the appraiser; facts obtained from his years of experience in the real estate business and material acquired through his knowledge of the community parade across his mind's eye; additional data and information are found in the files of his own office; but other data must be assembled through investigation and hard work.

The mental process of the appraiser should follow a definite pattern. His thinking should be clear; he should know what he is seeking to do and then proceed along an organized and orderly plan.

He should know the purpose of the appraisal. He should have a clear mental photograph of the property; and then he should compile the necessary data to give him a true picture of the city, the district, the neighborhood, and the block where the property is located.

It is essential that he know how the city grew; what kinds of people live there; what their racial characteristics are; what their economic status is; how they earn a living; what the natural geographic advantages of the city are; what railroad and water facilities and other means of transportation are available; into what districts the city is divided (business, residential, industrial, suburbs); what the commercial and industrial enterprises in the city are; what caused the large industries to locate in this territory; what the employment opportunities are; what the financial status of the city and of the city government is; what banking facilities are available; how the financial institutions survived the recent crisis; what the trend of taxation is; and what the social pattern is with respect to schools, recreational centers, and other cultural outlets.

The answers to these questions can be added up to form an estimate of the trend of growth. Here the appraiser is seeking to estimate the stability of the city itself.

And likewise with district data — the appraiser should ascertain how large the district is in which the property is located; what its social characteristics are; what kind of merchants occupy the stores; whether or not they are progressive; whether or not there is a chamber of commerce; what the purchasing power behind the business district is; whether or not there have been any real estate sales and, if so, at what prices; what the rental is per front foot; what the nature of the

business is in the district; what the volume of the business is of the leading merchants and how it compares with previous years; what kinds of buildings are in the business district — old or modern; whether or not the store fronts are up to date; and whether or not lending institutions are seeking loans in the district and at what rates. Again the appraiser is trying to feel the trend of the district. He is trying to estimate the degree of its stability.

And now he comes to the immediate environs of the property. If he is in the downtown shopping area, he should locate the 100 per cent blocks and spot the 100 per cent corner or corners. He will, by his close scrutiny, observe which is the better side of the street; the age of the buildings; the use of the upper floors; the purchasing power behind the stores; the location of the purchasing power; the kind of merchants on the street; the location of the large department and chain stores; the volume of business done by these stores; the terms of the leases; the real estate sales recently made in the vicinity; what rents the merchants pay; the history of such rents; whether or not the volume of business done by the merchants warrants the rent that they pay; and whether or not the percentage tenants pay more than the minimum.

What is he seeking? He is trying to estimate the warranted rental value of these stores.

At this point the appraiser approaches the *locus in quo*. He examines the property carefully as to the relative location of this site on the block; any possible restrictions, the size of the lot, and any plottage advantages. He observes whether the lot is so located as to give it normal visibility; or, possibly, it may have greater visibility than the adjoining lots due to angles in the street. Again he is comparing in order to forecast the trend of the future—to measure its stability.

With these facts at hand, he searches his mind as to the highest and best use to which this site is adapted. Should it be a one-story store building? Or should it have more than one story? Should the building contain a single store? Or should it be used for two or more smaller stores?

The appraiser asks himself many questions. The answers to some of these are immediately apparent; to others he must give further study. In other words, he must correlate and analyze his answers. He must make comparisons—always comparisons.

THE PROCESS ILLUSTRATED

The step-by-step process in making an appraisal of a store property might well be illustrated by a recent experience in selling a downtown site. An investor had become interested in the purchase of a corner property upon which was located a bank building. The bank had failed, and the property was for sale by the liquidators. The investor expressed a desire to purchase this property, and he was willing to pay all cash, but he wanted to buy this property "right."

A hasty inspection of the property would indicate that it was entirely obsolete from an economic viewpoint. The building was erected ten years ago of solid masonry, with three floors equivalent to four stories in height. The first floor and mezzanine were used for banking quarters, the second floor, for the bookkeeping staff, and the third floor was used for the offices of the executives and directors. Built as it was in the hectic days of the late twenties at a cost of $225,000, it conformed specifically to a modern banking structure.

The city in which this property was located had a population of about 50,000.

It was known as a shopping center with a reputed shopping population, including the surrounding towns, of 225,000. This shopping area was carefully estimated, and included neighboring towns with no shopping centers of their own or with shopping facilities limited to neighborhood stores. The circulation of the local newspaper was carried into these neighboring communities. This was an indication that the advertisements were being read in the suburbs as well as in the city. The local chamber of commerce and the circulation manager of the newspaper both confirmed the shopping population estimate.

The city was known as an industrial city with a preponderance of heavy manufacturing and was located at the junction of two rivers where thirty feet of water was available for ocean-going vessels. It was situated twenty-two miles from downtown New York City and eighteen miles from the city of Newark, the largest city in the state of New Jersey, with a population of upwards of 400,000. Served by four railroads and with excellent state highways skirting the town, it was afforded all of the natural advantages for a thriving industrial community.

The heavy industries had located in this city thirty to forty years ago because of its proximity to the large metropolitan markets of New York and Philadelphia and its natural advantages for receiving shipments of raw materials by water. The chief industries were nationally known concerns engaged in the refining of metals. Subsequently, the clay industry developed in this area when natural deposits of clay were found in the substrata of the soil. The manufacture of brick, tile, and terra cotta was centered in this region. The location of the needle trades followed in the wake of the heavy industries due to the great abundance of cheap female labor.

It was apparent that this was the center of an industrial area where a great deal of unskilled labor was employed.

A study of the growth of the city indicated that its development from the early nineties to 1930 was steady and gradually upward and that the city grew from a small residential community to a thriving industrial town. It grew to an area of four and one half square miles and was well built up. Residential facilities were crowded, and there was a noted tendency to expand to the suburbs. However, the recent economic depression hit the city very hard, and the heavy industries were hit the hardest. Unemployment was severe; the relief rolls were taxed; 1933 saw 25 per cent of the population participating in some form of a dole; mortgages were foreclosed at a terrific pace; three of the five banks were forced to consolidate to avoid collapse.

This situation prevailed up to early 1935 when this city likewise responded with the rise of general economic conditions throughout the country. The clay industry catering to the building trades was just beginning to recover from the slump. Since 1935 there was a steady recovery, not only in the unemployment situation, but in the financial structure of both industry and business. Sales of residential property, at a standstill from 1929 to 1934, were again being consummated. Deterioration and obsolescence caused by deferred maintenance, obvious in 1933, were gradually being checked by a spurt of renovation and reconditioning that was taking place since 1935. Residential construction in the suburbs, although not of boom proportions, was again fairly active, particularly in the $5,000 class. It was, therefore, concluded that the depression had spent itself and that the community, founded as it was by basic industries, was again on the upward trend.

The downtown section consisted of seven short blocks on the main business street, with an overflow to several of the side streets. The entire downtown section was solidly built up with store buildings of one, two, and three stories in height. The chief secondary street crossed the main street forming a business center known as the "Five Corners" and extended for many blocks, solidly built up with stores of a cheap character and diminishing in value as the street receded from the "Five Corners."

Investigation disclosed that there were several sales in the shopping district in recent months and that there was considerable refinancing through lending institutions at a rate of interest varying from 4½ to 5 per cent. This lending, however, was confined to the seven blocks. Observation also indicated that the vacancy ratio was very low in the entire district with the exception of the secondary business street where the vacancy ratio was in direct proportion to the observed deterioration of the properties.

Analysis of sales data and rental data indicated that values increased as one approached the center two blocks of the district. These two blocks were improved with modern shops occupied by many national chains and a large department store. The fronts were of modern design, and it was apparent that this was the 100 per cent shopping area.

The north side of the street housed the large department store and the five-and-ten-cent stores, which fact tended to confirm the observation that this was the "right" side of the street. However, the south side of the street, where the property under appraisement was located, was not exactly the "wrong" side. Shopping traffic, although somewhat heavier on the north side, did not hesitate to cross the narrow roadway at will.

Traffic counts supported the observation that this was "a Saturday town." Daily sales analyses supplied by tenants revealed that 40 per cent of the weekly business was done on Saturday.

A study of real estate sales disclosed that two properties were sold in the twenties at prices averaging $5,000 per front foot. Further study, however, indicated that they were highly speculative sales, unwarranted economically even at the time they were made. Both of these properties had since been foreclosed, and these sales therefore were given no consideration in the sales program. Several other sales were made in the blocks adjoining the 100 per cent shopping area, which sales analyzed at approximately $1,000 per front foot including buildings.

The history of the rents on these two blocks indicated a rental value varying from $400 per front foot obtainable in 1928 to an average rental of $225 to $300 per front foot at the present day. The rents on the north side of the street were slightly higher than those obtainable on the south side.

An interesting sidelight was revealed by the present rent paid by one of the national shoe chains, carrying a popular priced shoe, located on the opposite corner to the property in question, but on the same side of the street. This tenant was paying $7,700 for a fifteen-foot store, or over $500 per front foot. This was, of course, an old lease, but a careful study of the business done by this occupant disclosed that it was not over 7 per cent of its volume of business and, therefore, not at all fatal to its success. The valuation of this building by the capitalization approach would indicate a fictitious sum unless the appraiser recognized that here was a surplus income not chargeable to the real estate but created by a lease and that such surplus income was tempo-

rary and would be dissipated at the end of the leased period.

An investigation of the tenancies in recent years in these two blocks further disclosed a very small turnover in tenants. It was apparent, therefore, that the immediate vicinity of these two blocks had been well anchored for many years as the 100 per cent shopping center of the community and that there was every indication that it would remain so.

THE PROPERTY ITSELF

We were then prepared to examine carefully the property under appraisement. This property was in the very center of the 100 per cent shopping area, being a corner lot having a frontage of 30 feet on the main street by 100 feet on the side street. The stores on this block were mostly ladies' specialty shops, ready-to-wear, and shoes. As previously stated, this site was already improved with a closed bank building. Now the question was what use this property could best serve.

Any use of the property for banking purposes could be immediately ruled out because recent history of banking in this community indicated that there was no need for any additional banking institutions. It was obvious that the site should be improved with a store building, but we had yet to determine how high this building should be. An observation of the use of the upper floors in this area indicated that many of the upper stories were in disuse and that tenants preferred to use the hallways for store purposes at the sacrifice of the upper stories. Further study showed that there was an oversupply of office buildings in the city and, more specifically, that the recently built ten-story office building was renting at between $1.00 and $1.50 per square foot, with a vacancy ratio of 30 per cent. The conversion of the present building into a mercantile building, using the first floor and basement for store purposes and converting the upper floors into offices, was physically feasible but economically disastrous, not only for the reasons as hereinabove mentioned, but for the further reasons that the taxes on this building made this possibility unthinkable.

It was clear then that the upper floors of buildings on this street had very little economic use and that the economic laws of diminishing returns operated when a building greater than one story was hypothetically constructed. This was particularly true of the site under consideration. Notwithstanding the fact that this was a corner and that a hallway could be located on the side street, this hall would serve only to make the store 15 feet shorter, reducing the depth from 100 feet to 85 feet. The loss of this space alone might be fatal to procuring a first-class tenant when it is considered that modern store fronts are built 20 to 25 feet in depth. It was concluded, therefore, that the highest and best use of this site was a one-story and basement store building.

It was ascertained by consulting with architects and contractors that the present building could be razed at no cost to the owner, the salvage value compensating for the labor. It was further ascertained that a one-story and basement, brick building of modern design, with a modern front twenty-five feet in depth, would cost $20,000, including capital charges during construction.

(At this point the appraiser should take stock of all the information he has garnered. He should separate the wheat from the chaff and go over his data like a column of figures. These data should give him the key to the appraisal—the annual, warranted, stabilized rental value of the property.)

We have said much about shopping population and about the volume of business done; we have talked about traffic counts. Now we ask what these items have to do with valuation and whether it is possible to translate a potential shopping population of 225,000 people into value.

The answer might be that the shopping volume affects the value in that it affects the rental that the merchant can afford to pay. Rent is the last thing that a merchant pays or at least wishes to pay. He must, from his gross income, first pay the cost of labor—wages; the cost of co-ordination—light, heat, etc.; the cost of satisfying capital; and then only what is left of his gross income can he afford to pay as rent. There is no limit to the amount of rent a merchant can afford to pay except as that limit may be circumscribed by his gross income, that is, the volume of business that can be done on the premises.

It is an axiom in real estate appraising that the value of land is limited only by the net income imputable to it. So it is with rent. The amount of rent a merchant can pay is limited only by the dollar volume of business that he can do.

And now, what has "a Saturday shopping town" to do with value? This observation merely confirmed our conclusion that the shopping population of the community consisted of workers, men and women who did their shopping when they were not working—an industrial group as contrasted with a group who shops at its leisure. For instance, the shops in the 100 per cent area of East Orange and Montclair, New Jersey, close evenings all the year round and on Saturday afternoons during the summer months. In an area of industrial shoppers such closing would be prohibitive. The shops must cater to the time and convenience of the shoppers.

In this situation it is likely that the overhead of the merchant is increased with larger pay rolls, larger costs for electricity, and other services, in which case he can afford to pay less for rent. In the long run all these factors undoubtedly reflect themselves into the rent paid. Rent tends to seek a level consistent with the potential volume of business on the one hand and the cost of doing business on the other.

An analysis of the data thus far gathered regarding the rentals paid in this area and particularly in this block and a study of the volume of business done by leading merchants brought us to the conclusion that a one-story and basement building on this site should command a rental of approximately $275 per front foot, or over $8,000 per year. This anticipation was further warranted by a case study of the business done in two well-established dress shops on the interior of this block. The results of this study indicated a rental paid of $6,600 per year for a twenty-five-foot store on the volume of business of approximately $110,000, or $264 per front foot.

This proposed sum of $8,000 represented a stabilized rental which an owner was warranted in anticipating immediately. It was very likely that a tenant could be procured who would pay this sum as a minimum rental with an additional percentage on the gross volume of business done.

THE PROSPECTIVE INCOME STATEMENT

The balance of the appraisal was merely a matter of mathematical mechanics with the exception, however, of one very important item—the capitalization rate. The tabulation appeared as follows:

SCHEDULE OF INCOME AND EXPENSE FOR A PROPOSED ONE-STORY AND BASEMENT STORE BUILDING

Gross effective stabilized income from property	$8,000.00

Annual maintenance and expense charges:		
Taxes	$2,300.00	
Insurance	150.00	
Water (none)		
Heat (none)		
Repairs and replacements	200.00	
Store front replacement	400.00	
Management	400.00	
Commissions: Legal and Miscellaneous	450.00	
		3,900.00
Effective net income from land and building before depreciation		$4,100.00
Cost of building	$20,000.00	
Annual interest and depreciation charges:		
Interest 6% } Depreciation 2% }		1,600.00
Net income applicable to land		$2,500.00

CAPITALIZATION AND VALUATION

The problem then resolved itself to what an investor could afford to pay in exchange for an annual net income of $2,500. (Accordingly, these questions arise in the mind of the appraiser: How safe is this annuity of $2,500? Is it stable? How does this investment compare with other forms of investment, such as stocks, bonds, mortgages, or other real estate in this community, as to safety, stability, ease of collection, speculative opportunity, and, lastly, liquidity?)

The answers to some of these questions had already been made apparent. The town had withstood the onslaught of the depression; it was on the way to recovery. The location of the property was one of the best in the town. Savings banks were paying only 1 per cent on demand deposits; ten-year mortgage loans were made in this very block at 4½ per cent on 60 per cent value.

In analyzing these answers, we sought to translate this annuity into market value. At what rate, then, were we to capitalize this net income?

It was the conclusion, taking into consideration the desirability of this piece of real estate on the one hand and the hazards involved on the other hand, particularly the facts that the existing building had to be razed, a new building constructed, and a tenant sought, that a 6 per cent over-all capitalization rate would be justified.

It might be of interest to conjecture what capitalization rate we should use if, instead of having an incompleted project, we were called upon to appraise this property one year hence and find the building that was contemplated already constructed and occupied by a substantial tenant paying the rental anticipated. Would we apply a capitalization rate of less than 6 per cent? We believe such would be justified. With the hazards of the entrepreneur overcome, the increment in the valuation might well be the reward of his undertaking.

Based upon a mortgage loan of 60 per cent value at 4½ per cent interest, an investor could earn 8½ per cent on his equity. This tabulation was shown as follows:

Creditor's position—mortgage—60% of value @ 4½%	2.7%
Debtor's position—equity—40% of value @ 8½%	3.4%
Over-all rate	6.1%
Over-all rate in round figures	6.0%

It became a matter of computation, therefore, to estimate that a $2,500 net income imputable to land, when capitalized at 6 per cent, could be translated into a market value of $41,666.

The investor was informed that it would be advisable to pay $40,000 for this property and that at this price he should earn 8½ per cent on his equity. The deal was consummated.

INSURANCE COST IN THE OPERATING STATEMENT

AUBREY MADDOCK, M.A.I., C.P.M.

AN appraiser, in preparing an operating statement for income capitalization analysis, even though he is so meticulous in setting down administrative costs, maintenance costs, and taxes that he may carry his figures to the odd cents, sometimes becomes careless or merely guesses when he arrives at the estimate of insurance expense.

It is true that there may be a wide variation in opinion concerning what forms of property insurance should be carried on the real estate being appraised, yet the appraiser should be familiar with all types of insurance policies applicable and should determine, in each instance, which of these forms are essential in the particular case under consideration.

The objective of the appraiser is the substitution of certainty, in so far as possible, for uncertainty in his computations. Many of the uncertainties of real estate ownership may be eliminated by insurance of various kinds by the expedient of substituting a premium known in advance for possible losses which cannot be guessed, certainly not estimated, at the date of appraisal.

The operating statement, if it is to approximate accuracy so far as the future can be anticipated, must take into account a precise estimate of the cost of adequate property insurance. Even with rates and premiums changing from year to year to reflect the experience of the carrying companies, there is likely to be only a small zone of error. Approximate cost of insurance is to be preferred to the vast uncertainties of great possible financial loss—not only loss of the property itself, but also loss of other assets of the owner.

In order that appraisers may have some basis of considering appropriate forms of insurance in compiling operating statements, there are outlined in the following paragraphs a few of the more important kinds of insurance coverage, together with brief comments of special importance to those most interested in seeking indication of value through capitalization of net income.

FIRE

No appraiser is likely to omit fire insurance since mortgagees require that it be carried and owners are educated to it. Yet some questions might be asked in each individual case. Is the amount reasonable? Foundations cannot be destroyed by fire and may retain some usefulness after conflagration; certainly the lot will remain even though the building is a total loss. Does the peculiar situation of the property, because of zoning ordinances or fireproof construction area requirements, make essential the "demolition clause" endorsement? This coverage may be necessary to protect against serious loss in the event of partial destruction by fire, bringing about municipal requirement of complete demolition.

Frequently a saving in fire insurance premiums will result from the application of the coinsurance clause. This means that an amount of insurance must be carried up to a named percentage of the sound value of the property insured if partial losses are to be paid in full. For instance, assume a policy carries an 80 per cent coinsurance clause. The sound value is, let us say, $10,000. If $8,000 of insurance is carried, partial losses will be paid in full up to the amount of the insurance.

If, on the other hand, only $4,000 is carried, a partial loss would result in payment of only 50 per cent of the loss, which is the ratio which the amount of insurance carried bears to 80 per cent of the sound value of the insured property. Where the coinsurance clause is used, it is important that an adequate amount of insurance be carried so that partial losses will be paid in full.

Of course, the appraiser knows that a three-year fire insurance policy may, in most instances, be written at two and one half times the annual premium, and a five-year policy at four times the one-year charge. There is no need to tell readers of the JOURNAL that these costs must be translated in operating statements to an annual basis.

RENT

Suppose the gross income (less vacancies and lost rentals) which is imputed to the property were to be partly discontinued for a period during reconstruction after a fire. Rent insurance would provide indemnity against loss on account of this situation. Should the small cost of this form of insurance be included in operating statement analyses?

WINDSTORM, CYCLONE, AND TORNADO

When the preparation of this paper began in the middle of September, the writer had expected to state in this connection: "In some sections of the country, windstorm, cyclone, and tornado insurance is considered absolutely necessary. But this is not the case generally in New England." Came September 21, 1938, and with it a misdirected hurricane which hit New England a terrific blow and cost the northeastern states millions upon millions of dollars—mostly not covered by insurance. This type of insurance may well be considered by property owners everywhere—and certainly the cost of such protection is an expense to be taken into account by appraisers in setting up operating statements. This is covered by a separate policy, or "Extended Coverage Endorsement No. 4" (or similar form) may be added to a fire policy.

PUBLIC LIABILITY[1]

Public liability coverage, commonly known as "Owners', Landlords', and Tenants'," while frequently ignored, is as important as fire insurance. An owner's limit of loss in the event of fire is his equity in the building. There is, generally speaking, no limit to his possible loss on account of injuries to the public (and that means almost everyone in the world except himself and his family) arising out of the ownership of real estate.

Premiums for multi-family dwellings and commercial properties are based upon total area of building and frontage of lot, including both frontages if a corner.

Where there are elevators it is important that coverage for this hazard be given consideration. The records of insurance companies show that elevator accidents are not infrequent, and the owner or lessee (if the lease covers the entire premises) may be sued and damages may be recovered for injuries sustained by the public in these accidents. Elevator public liability premiums are based upon type and use of the elevators covered.

Limits of liability of the insurance company may be $5,000 for one person killed or injured in any one accident and, subject to that limit for one, $10,000 for more than one person killed or injured in a single accident. These are called "standard limits." But, as a matter of fact, they should be designated "substandard." Higher limits, invariably advisable, may be had

[1]Not, strictly speaking, property insurance, although equally important, since it protects all of the assets of the property owner.

for slightly larger premiums. (It is important that the interest of the agent or property manager be included as an additional assured without extra charge.)

"Owners', Landlords', and Tenants'" public liability coverage includes, not only payment of judgments up to the policy limits, but also investigation of claims, settlement (if the company deems such course advisable), and all expense of defense of legal actions resulting from alleged accidents on the insured premises "even though groundless, false, or fraudulent." Whatever others may do, the writer will always include the cost of this type of coverage as absolutely essential in setting up operating statements for income capitalization analysis.

Many states have, by legislative act, set a limit upon the amount recoverable for a fatal accident. There is, however, no limit upon compensation recoverable for total permanent disability. It is not out of line, however, to consider policy limits in their relation to the statutory death limitation in the state wherein the property under appraisal is located.

PLATE GLASS

Plate glass insurance is, of course, indemnity against loss on account of breakage. Do leases require that plate glass insurance be carried by lessees? Is it economically advisable to carry this type of coverage? The writer leaves to each appraiser to decide, in every individual case, whether the premium for plate glass insurance has a place in the operating statement.

STEAM BOILER

Coverage for a steam boiler may be written to indemnify against injury or damage to the object itself; or it may include indemnity against loss on account of personal injury to "the public" in case of accident. It is generally understood that the steam boiler loss ratio of the insurance companies is not expected to exceed 15 to 20 per cent. Most of the premium goes to pay for inspection and accident prevention service. Many there are who consider these services well worth the cost.

"Expediting coverage" may be had for a slight additional premium, guaranteeing every possible service for prompt restoration of service in the event of any claim under the steam boiler policy. Here is another form of insurance deserving consideration in setting up operating statements for appraisal purposes.

EARTHQUAKE

Earthquake insurance, considered essential in some parts of the country, is covered by a separate policy, not endorsed on a fire policy. The rates, which are relatively low, are promulgated by the so-called "Explosion Conference," made up of a group of fire insurance companies, and are predicated upon zones to reflect relative hazards.

No attempt has been made in this brief paper to enumerate all forms of insurance applicable to ownership of real property. The thoughts expressed are set forth merely to suggest to appraisers the importance of considering all proper insurance costs in setting up anticipated operating statements for the purpose of income capitalization analysis.

FINANCING INDUSTRIAL REAL ESTATE

WALLACE W. TRUE, M.A.I.

The initial step in the appraisal process is to state and understand the problem. This is not always as simple as it sounds and may frequently call for a working knowledge of economic relationships and practical business that seems far removed from valuation. This is well illustrated in Mr. True's article, and all appraisers interested in industrial real estate will profit from his clear exposition of the many factors underlying sound mortgage loans.—Editors.

ONE of the most important considerations in the complex organization which we know as modern civilization is that part of the financial mechanism which facilitates and controls the flow of new savings from those who accumulate them to those who put them into productive use. Some are used by the savers, while to find use for the remainder, various kinds of intermediaries are called into play. The large savings may be invested through the medium of the stock exchanges, and small savings, through savings banks, building and loan associations, and life insurance companies. Among the many media thus provided, a very important place is taken by the insurance companies, through whose hands pass a very considerable proportion of the country's savings, both large and small. The place of the insurance company in this setting has become of increasingly larger importance.

The extent of this growth in recent years is best measured by the increase in investment reserves of the reporting life insurance companies in the period 1929-1937, which period encompassed the worst depression any living man has seen. In this period the invested reserves of life insurance companies increased from $13,200,000,000 at the end of 1929 to $18,400,000,000 at the end of 1937. As a measure of the growth of the investment importance of the life insurance companies, these same companies had in 1906 only $2,924,000,000 in investments and reserves and cash. In the same period (1929-1937), the invested assets of all mutual savings banks increased only $500,000,000, from a 1929 total of $11,000,000,000.

It has not been generally recognized, until recent years, that the function of the life insurance company is twofold. Many people *still* have the mistaken idea that the prime function of the insurance company is the payment of losses arising out of the death of the insured. As a matter of fact, every large company now pays out over 60 per cent of its annual payments to living policyholders in the form of annuities, matured endowments, or dividends resulting from savings and excess earnings over and above the reserve requirements.

These accumulations of savings, for that is what they are, are held by the insurance companies and are invested and reinvested against the time that they will be needed to pay the contract at its maturity. They constitute the major portion of the reserve funds of any company and are always sufficient to meet, with interest accruals at the reserve base, *every* commitment called for by *every* contract in force, assuming an approximate maturity date of all contracts in accordance with standard experience tables.

It is necessary therefore that these reserve funds be invested in such a manner and at such rates of interest that the reserve base rate of interest will be earned or exceeded and that none of the principal

of these funds will be lost which cannot be replaced out of excess earnings above the reserve requirements.

The problem of the provision of funds for capital investment in industrial properties arises not only at the time of the foundation of the company, but also at many intervals during its life. Usually, it is either necessary or advisable to make an appeal to the investors who have little interest in or liking for the gambles inherent in equity ownership and who are independent of the company and its interests. To persuade this group to invest, usually at relatively low interest rates, it is, of course, necessary to show to its complete satisfaction that the principal is safe and that an income therefrom is reasonably assured.

The income promised in the form of interest will necessarily vary with the relative safety of principal and with the kind and type of business. Investment may be either in the form of ownership, in which case the investment is evidenced by shares of stock representing equity ownership, or indebtedness represented by bonds for the amount of the principal of the loan made.

THE CHANGE IN THE MORTGAGE BUSINESS

The mortgage business and the process of investment in mortgages has undergone a great expansion in the last fifty years. If we examine the investment portfolios of large insurance companies as they existed fifty to sixty years ago, we find that their primary reliance was upon bonds and stocks plus real estate, with only a secondary reliance on mortgages. At a later date some venturesome soul discovered that it was possible to take mortgages or other evidences of indebtedness on many different categories of property with an equal degree of safety.

The condition which has brought about this necessity for investment diversification has stemmed from several things: first and foremost, the great increase in the reserves of large companies requiring investment; second, the drying up of the large reservoirs of investment opportunity, which formerly existed in the railroads, in new industries, and in construction, due to the depression and to other forms of transportation which have come into competition; third, the gradual, but inexorable, decline during the depression in the total amount of high-grade bonds available for the investment of funds of large capital accumulations; and, fourth the regulation which has been put upon the sale of securities by the government under the present administration. This regulation may be either good or bad. The great needs for pioneering capital and for the financing of equities have slowed down due to our "coming of age" as a nation and to the decline in the speed of our growth as a people. Much of the individual capital which formerly went into equity financing, attracted by the large potential returns therein, has become more cautious and has invested in bonds and mortgages instead. This again has been influenced to a considerable extent by the policies of the government in the matter of taxation of both undivided profits and capital gains.

INTEREST RATES

Statistical study shows that net interest or the rate of interest return applicable to so-called "money bonds" has been in a constantly declining curve for the past nineteen years except for a slight peaking in 1920, 1931, and 1937. During the 1931 peaking this was entirely accounted for by the bank failures which made it necessary for these institutions and other holders of evidences of capital indebtedness to dump their holdings on an already demoralized market.

This general decline may be measured by the fact that the peak—and again speaking in terms of pure interest—was slightly higher than 5½ per cent in 1920, and this has declined to a present yield basis varying from 3.18 per cent to 2.61 per cent, depending upon the maturity date and the rate of the issue.

In the same period the rate for Moody's group of "Aaa" bonds has declined from a high yield point of about 6½ per cent to a present yield very close to 3 per cent. This latter decline is probably a better index of the true net interest rate than the government rate for the reason that during this period the issues of the government have been manipulated, and for some extended period the market was artificially pegged by reason of the enormous purchases of the Federal Reserve System.

High interest rates follow periods of expansion and large calls on sources of capital for the use of capital funds. Our railroads are built; our cities are no longer increasing in population by leaps and bounds due to immigration restrictions and other economic forces too numerous to detail at this time. The tendency seems to be, as far as a trend is visible, for a decentralization of at least some of our present great industrial centers.

It does not appear, therefore, that there is any great national need, aside from government borrowing, which is going to affect seriously the accumulations of capital which have been created and which are now seeking investment.

We are not going to do away with interest—despite the threat of "New Dealers"—but it is probable that our own history in the future, with respect to interest rates and return on capital funds, will parallel more closely that of certain of the European countries.

In these countries interest rates have always been lower than in the United States. The trend of interest rates and the costs incident to the acquisition of capital for investment in industrial properties are of prime importance to everyone connected with industry and to every real estate man handling industrial properties. These trends will have their effect on every factory now standing or to be built. Cheaper money, in the form of lower interest and financing charges, will affect the standing property built with higher-cost money and will aid in the construction of lower priced properties yet to be built.

For the large company, whose name and products are well known and whose stocks and bonds are listed on the larger exchanges, government regulation has not presented any very serious problem. For the small company, however, the problem has been a very grave one and has resulted in almost total suspension of capital financing in this class of industry, except by governmental agencies such as the Federal Reserve System and the Reconstruction Finance Corporation. The reasons for this are several:

1. A lack of market for the securities of industries of this type due to the drying up of sources.
2. The inability, due to the cost of listing, of providing a ready market for the small issue.
3. The expense of qualifying such an issue through the Securities and Exchange Commission, which for the small firm is well nigh prohibitive.
4. The lack, until very recently, of rediscount facilities available to banks who might care to embark on this type of financing.
5. The attitude which, until very recently, was present in the minds of most of the bank examiners who regarded any investment in a small company whose securities lacked liquidity as not a proper type of investment for a bank.

In recent years, therefore, the tendency has been more and more for these smaller companies to turn to either government agencies or the large reservoirs of capital

in the hands of the great insurance companies in order to provide for their capital needs.

THE INVESTMENT ANGLE

It is essential that those who are confronted with the problems of financing industrial real estate know something of the problems of the investment side of the picture, something of the scope and character of the examination which are believed to be fundamental in the matter of industrial financing.

First of all, it should be remembered that every insurance company, great or small, is subject to regulation. The company with which the writer is connected is examined from time to time by insurance regulatory bodies of all of the forty-eight states. Since the Home Office is in New York, the company is primarily responsible to the Insurance Department of that state.

The type and kinds of investment which a life insurance company can make are rigidly laid down by law and regulation. The amounts which it can loan are controlled by certain established principles of valuation procedure, and the term for which the loan can be made must necessarily be roughly correlated with the greater problem of the probable need for funds at some future date and is further bound up with the problem of the study of interest rate trends over long periods.

Again it must be remembered that we in the insurance companies must constantly keep in the forefront the fact that we are investing other people's money, that our relationship is that of a trustee, and that we are responsible, first of all, for the safety of our principal and, secondarily only, for a reasonable return on our investment. The creditable record made by American insurance companies in the depression, when every promise of every contract was fulfilled in spirit and letter, is the best evidence of how well developed is this sense of trusteeship in those responsible for the guidance and direction of these institutions. Therefore, in the analysis and examination of any loan offered, we must constantly resolve every doubt against the enterprise and in favor of the main idea of safety of principal.

APPRAISING FOR INVESTMENT PURPOSES

The examination leading to industrial financing comprises not only an examination of the property which would be security for our loan, but must of necessity include an examination of the business, determination of its economic necessity, an examination into its history, how it came into being and why, what its record of growth has been, and what its policies with respect to public relations and labor relations have been.

Next, we must make an examination of the earnings of the business and must satisfy ourselves that these earnings are such as to provide us with a reasonable assurance that there is present in the business a capacity to earn which will assure a future continuity of earning power sufficient to repay our capital advances.

In general, with respect to the issuance of funded obligations which require a steady and certain income stream for the payment of annual interest and sinking fund requirements, it is a safe rule to assume that no funded debt should be issued unless the income of the company, at its minimum, is suffcient to cover all charges including interest and sinking-fund payments and also to leave a relatively large margin in addition.

Estimates of future earnings, while based upon an analysis of past earnings, should not be mere optimistic guesses, but, particularly with respect to the require-

ments of funded debt, should be based upon a careful and complete analysis—and with wide margins of safety.

As a broad general rule, it may be safe to say that the actual value of fixed assets should exceed outstanding bonded obligations by at least 50 per cent; second, that the actual value of fixed assets plus the value of net current assets, or working capital, should equal and generally exceed all outstanding contingent obligations, preferred stock, income bonds, etc.; third, that the actual value of tangible assets plus the value of intangible assets should equal or exceed all outstanding obligations such as bonds and preferred and common stocks.

The market for the product of the industry must be studied. Competitive factors, economic barriers to markets, the possibilities of style changes, and obsolescence as they may affect the product of the industry and whether or not the product is one of real necessity or whether it is a mere luxury item are all matters which must be considered.

Finally, under the general examination, management must be studied. We must satisfy ourselves that there are competent men in the organization available to succeed every man in a key position in that business. One-man businesses are distinctly not avenues for semipermanent investment of capital funds, at least not of capital funds of a trustee character, such as those of an insurance company.

Having satisfied ourselves with respect to the business, its history, its management, its earnings, its markets, it is then time enough to approach the question of appraisal of the worth of the physical assets offered as security. This appraisal differs very much from the conventional real estate appraisal in a number of particulars.

Since there is not now and never has been any regular market quotations on industrial property excepting industrial property in the hands of unwilling owners, or property being liquidated by reason of the fact that the necessity for its use no longer exists, it is rarely possible to establish what the real estate appraiser calls a "fair market value" for any industrial property. Therefore, the only appraisal which appears to have any significance as a basis for lending is an appraisal based upon cost of reproduction less depreciation or so-called "going concern value." This appraisal, however, is by no means the loaning value, if you please, of this property; it merely establishes the upward limit of value beyond which we may not proceed.

It must be remembered that all appraisals rest very largely on estimate. No appraisal can be made without incorporating therein many figures which are purely estimated. Even though all material in the structure were listed down to the last and smallest item, the amount of waste and the labor involved in erection or construction of necessity must be based on estimates. Therefore, the appraisal is no better than the appraiser who makes it.

After "going concern value" is established, it is necessary that the appraisal make a distinction between used and useful and surplus property. Many an industry in this and other countries has been wrecked by too great a distortion of the balance between working capital, net sales, and fixed assets.

In addition to depreciation by reason of wear and tear, the industrial appraiser must also be competent to recognize obsolescence in either buildings or machinery and equipment. This is particularly true with reference to items of the latter class. An industrial plant recently investigated was determined to be no longer in shape to compete economically with other plants

in the same industry entirely by reason of the fact that it had not kept abreast of developments in the art, and its machinery and equipment were almost totally obsolete in the light of present-day manufacturing practice in that industry.

As a test check with respect to the safety of the proposed loan, it is always well to set up also a conversion value appraisal. This appraisal assumes that you have so many square feet of space available for renting for a use other than that of the present occupant and that so much money will have to be spent in converting this property for other uses. This appraisal is really an economic study of the property and begins with the assumption that so many square feet of space will rent for X dollars; that from this sum it will be necessary to deduct Y dollars in taxes and Z dollars in maintenance, leaving A dollars available for depreciation and for return on the investment in the property. If the sum of A dollars so arrived at will pay a reasonable return on the investment while holding the property for resale, one of the tests of a good loan has been met.

Also, as a part of such an appraisal, there should be set up an estimate of the liquidation value in the scrap or second-hand market of the machinery and equipment, which are usually pledged as collateral security for an industrial loan. The sum of the salvage value so obtained or so computed is, of course, deductible from the investment before the computation just mentioned.

STATE LAWS REGULATING MORTGAGES

The financing of industrial real estate presents many problems to the mortgage man and the investment banker due to the varying laws of the jurisdictions in which mortgages are taken. In some states it is possible to take a general corporate bond which covers all fixed assets as security; in still others it is possible to take a trust deed, again covering all fixed assets; in other states one must take a real estate mortgage on land and buildings and then collateralize this mortgage with a supplementary chattel mortgage covering machinery and equipment and personalty.

It is customary, of course, in industrial financing to write into the mortgage many restrictive provisions not used in the ordinary real estate mortgage. These restrictive provisions generally provide for the contingency of the priority of the mortgage in the event of consolidation or merger, maintenance of agreed ratios of working capital, reports to the lender by which means the progress of the business can be followed, restrictions with respect to the payment of dividends unless certain conditions obtain, and restrictions against additional borrowing either upon a secured or unsecured basis.

It seems hardly necessary to stress the necessity for quick amortization. It has been the practice of most institutions engaged in this class of lending to require total amortization over a ten- to fifteen-year term. All men who are familiar with industrial properties and with the highly volatile nature of American business as a whole will recognize at once the necessity for quick amortization. These mortgages, however, in addition to the compulsory amortization, usually contain prepayment privileges allowing payment either in whole or in part at agreed penalties of all amounts due under the mortgages.

AN INVOLVED TRANSACTION

The examination of a piece of industrial financing is indeed involved, and the investigation enters the field of economics, engineering, banking, and law. It is not safe to endeavor to make industrial loans upon any other basis. One must know all about the company, its history, its man-

agement, its earnings, its product, and its markets and, from all of these factors, after an analysis, form a considered opinion with respect to the loan. All doubts arising in the minds of the examiners or the appraiser must of necessity be resolved against the property or business. We must play safe—if we do not, our policyholders suffer.

Numerous lending opportunities arise from time to time which, for the funds of a group of businessmen who could afford to gamble on the ordinary businessman's risk for the sake of a potentially larger return, would unquestionably have been good loans. Many of these, however, we have had to turn down because certain elements of doubt were present which indicated that there might be the possibility of loss of principal. It is impossible never to make any mistakes, but in life insurance investments we have to hedge our investments with every known safeguard with respect to our principal.

Industry and its trends are of vital interest to both the real estate man and the investor. An understanding of these trends enables the real estate industrial specialist to guide and assist the investor in placing his funds in those industries which are developing great earning power.

Even during periods of pessimism and depression the ability to analyze and to appraise opportunity offers substantial gains. We know that many men with courage and vision who bought in 1931 and 1932 have laid the foundation of large fortunes.

Years ago business was conducted upon an individual basis—the production executive was a power and a law unto himself. Developments in industry were of interest to only a relatively few people. Today this phase is rapidly passing; any new development is widely reported and avidly seized upon by competitors; if it has merit, it quickly spreads through all industry which can use it. Obsolescence is the largest charge-off in many industries today.

The amount of capital employed per worker has been a constantly rising figure in all except decadent industries. In order to raise the large amounts of capital required, there was in the period of 1915-1930, a broadening and extension of the fields of capital reached in order to supply these needs. Many people who formerly gave no thought to this type of saving placed their money in stocks or bonds of industrial enterprises, many of them with most unhappy results due to the speculative fever of the 1925-1930 period. Losses are terrific from investments made through enthusiasm over new and untried developments; as an example, consider the boom in aviation stocks and securities of a few years ago. To obtain a clear view of the probable future of industrial financing, our habits of investment in the past must not be overlooked. The spirit and vision of our ancestors which caused them to stake out new lands and open new facilities in advance of the demand for them have developed in our people an overwhelming desire to have a share in the development of our industries. Astor, Vanderbilt, Rockefeller, Ford, and others have fired our imaginations and aroused our desires to share in riches through the creation of a new industry of some sort.

In the appraisal of the future, therefore, the business executive, the real estate specialist, the banker, and the investment official must all exhibit a high degree of foresight. The ability to see and understand trends, to weigh them with reasonable accuracy, and to act with intelligence in the light of this knowledge are of prime importance if the investor is to profit and if industry is to be maintained in a reasonable degree of stability.

DERIVING LAND VALUE FROM RENTAL DATA

CUTHBERT E. REEVES, M.A.I.

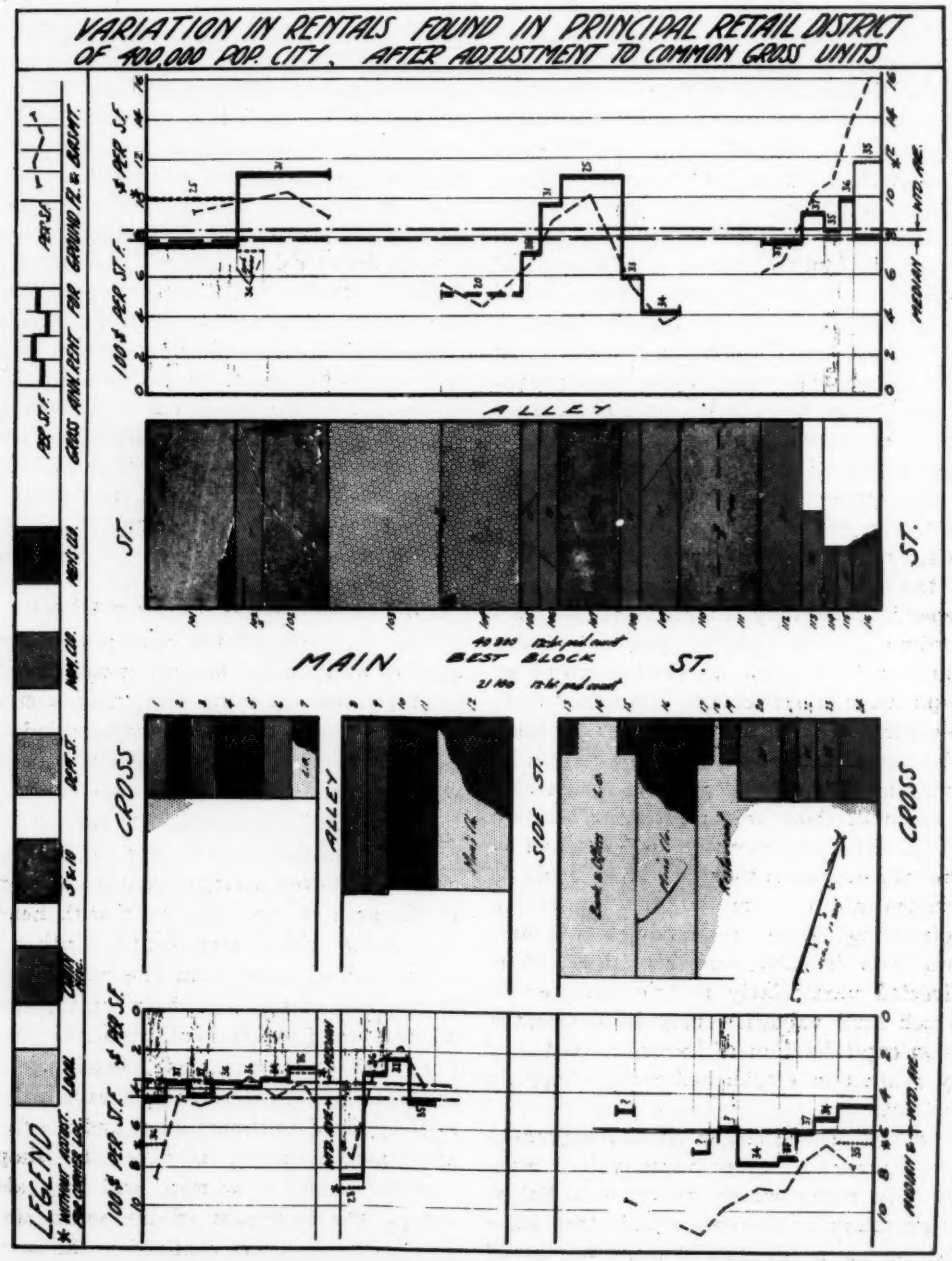
VOLUMES have been written about the technique of land valuation, but there is a surprising paucity of instruction, or even of discussion, on the derivation of the base values to which that technique is to be applied. We debate at length the merits of various depth-value rules or the method by which corner-location increment should be computed, but adopt without question a figure of one, or five, or ten thousand dollars per foot, based upon unsupported local opinion of an individual, or because the "community expression" says that is approximately the right figure.

The same methods by which the value of an "improved" parcel is determined or tested may be applied to develop the value of the land alone. Their applicability and dependability vary widely, however, according to the type of property under consideration. Cost of replacement or duplication is particularly significant as to low-valued residential and industrial land. The comparison method may be helpful by analysis either of directly comparable sales or of those which require allocation of the total consideration to land and to the improvements thereon. Much could be written about some of the interesting points that arise in applying these first two tests of value, but this discussion is directed particularly to the manner in which land valuation may be predicated upon capitalization of income as reflected by rentals in established retail shopping districts.

In one of our larger cities comprehensive surveys as to property values were recently made which provided sufficient information as to rentals and other lease data in the retail district to be worthy of tabulating and analyzing. The methods and results are presented to illustrate the principle. The accompanying map (page 38) shows the occupancy in the most popular block in the area thus surveyed. This part of the retail shopping district has progressively gained favor during the past several decades due to the shift of population, the drawing power of certain popular stores, and the development of a specialty shop district to the east where traffic conditions favor the high-class trade. The north side of the street has long been in favor because of climatic conditions and the concentration of population in that direction. The unit assessment of land in this frontage is now three times the figure used twenty years ago.

THE PREDOMINANCE OF CHAIN STORES

The occupancy of the respective frontages is what might be anticipated in the most popular shopping section of a city. The best has naturally been pre-empted by chain stores, but it is nevertheless somewhat surprising to realize that not one foot of a total frontage of 625 feet on the north side of the street is occupied by local merchants; even a large department store in the area is one of a chain with headquarters in another city. On the south side of the street, more than one half of the frontage is taken by chain units; that which is used by local enterprises is practically all owner-occupied. Nearly all of the frontage on the north side, except that used by the department store and the five-and-ten-cent stores, is taken by shops catering solely to women, and they also occupy the best part of the south side. The men's shops are confined to the south side, largely in the cheaper section.


VARIATION IN RENTALS FOUND IN PRINCIPAL RETAIL DISTRICT OF 400,000 POP. CITY, AFTER ADJUSTMENT TO COMMON GROSS UNITS
$ PER S.F.
100 $ PER S.F. F.
MEDIAN
MID. AVE.
ALLEY
ST.
MAIN
BEST BLOCK
CROSS
SIDE ST.
LEGEND
LOCAL
RET. ST.
NEIGH. CTR.
NEIGH. CTR.
GROSS ANNUAL RENT PER GROUND FT. IN DEPTH
PER S.F.

GROUND-FLOOR OCCUPANCY

The numerous ground-floor tenants comprise a wide range of occupancy types and hold possession under many different terms and conditions. Obviously, any conclusions as to unit values, based upon rentals, demanded, first of all, the adoption of some unit in terms of which every rental could be expressed.

Observation of the physical development along the most popular retail frontages confirms the long-standing generalization that the ground-floor occupancy must carry substantially and usually all of the charges arising from land occupancy. Most of the buildings in the shopping districts of our typical cities average only three or four stories in height, and today many of them are untenanted above the second floor. Manifestly, the upper floors of such "improvements" add relatively little to gross rental and practically nothing to the net. Moreover, it can be demonstrated that the upper floors of well-located multi-story office buildings contribute but little above their costs — save when both occupancy ratio and unit rentals are near their maxima.

Therefore, in this analysis, the unit adopted is the gross annual rental for typical ground-floor occupancy (with service and storage basement) of a standard foot (1x100), and all known rentals have been resolved into this common denominator. Net rentals have been adjusted to a uniform gross rental standard; income from upper floors where included has been compensated; adjustments have been made for corner location, alley frontage, and nonstandard depth. Rentals have been computed for such ground-floor and basement use also in terms of a square foot of ground-floor occupancy — this for purposes of reference and contrast.

On the map, chain stores are distinguished from those of local merchants, and several distinctions as to types of business are indicated by shading of various patterns. Known rentals are platted for each side of the street, in profile, using heavy bars for standard-foot prices and broken lines for square-foot prices. The weighted averages and the medians computed from the known standard unit rentals are also shown for each block-front. The dashed bars, marked by stars, indicate the rentals computed per standard foot for the corner stores before correction is made for such corner location; after adjustment according to a corner increment rule developed by the writer, the customary heavy bars mark the modified results. It will be noted that the application of this rule reconciles with the block averages the two corners on the north side of the street and that in the westerly block on the south side. The rental of the parcel at the easterly corner of the alley is obviously far out of line, and corner parcel No. 24, leased early in 1935, is distinctly low; the latter, by the way, is at the better end of the block.

The heavy bar representing the standard-foot rental of parcel No. 104 is shown as a broken line because that is the rental agreed upon from 1920 to 1930 by its former chain-store tenant; the lease was canceled in 1925 and the premises thereafter occupied by the department store which owned this in common with No. 103 and which previously had been using the upper floors in conjunction with No. 103. To avoid having so long a gap in the profile, this rental is shown. It may be stated, however, that it undoubtedly is unduly low, since, when the lessee moved to No. 101, he paid 50 per cent greater unit rental after allowance for corner location—twice as much without such adjustment.

The small figures at each bar designate the year when existing rental terms were agreed upon. Despite the vagaries likely to be found in so comparatively few leases,

the economic trend can be traced in the profiles, as evidenced in the following chronological tabulation of unit rentals on the north side:

YEAR	1920	1925	1931	1933
UNIT RENT	$500	$ 760 1,110	$1,130 960	$600

YEAR	1934	1935	1936	1937
UNIT RENT	$420	$710 785 820	$740* 980	$770 910

*Sublease

SQUARE-FOOT RENTAL NOT GENERAL CRITERION

The rentals prevailing in the block-fronts shown are summarized below. This tabulation demonstrates the unsuitability of a square-foot rental as a general criterion. Judged by that alone, one might conclude that the easterly block on the south side is as available as the north frontage; this illusion arises from the much shorter parcels making up the average in the former, which, manifestly, should not be compared directly upon a square-foot basis with the deeper lots in the latter. The relation is more accurately grasped by comparing the rentals per standard foot; these indicate that the north side will rent for about 35 per cent more, whether one judges by the medians or the weighted averages of the various rentals.

NORTH SIDE	Maximum	Minimum	Wtd. Av.	Median
per standard foot	$1,130.00	$420.00	$815.00	$785.00
per square foot	16.00	3.60	8.05	9.30
SOUTH SIDE (East Block)				
per standard foot	$ 745.00	$450.00	$588.00	$586.00
per square foot	11.20	6.53	8.36	8.90
(West Block)				
per standard foot	$ 845.00	$237.00	$423.00	$364.00
per square foot	8.45	1.82	4.37	4.30

Analysis of the profile along the north side reveals that the two wide frontages which rise high above the average are both held by five-and-ten-cent stores under leases made before the real estate market felt the depression seriously; the square-foot prices (about $10) are also well above the block average. In 1936, one of these tenants sublet part of its holding to a dress shop at a rate which brings the rent close to the average, as shown by the dashed bar opposite No. 102S. The other units which exceed the average do so only within a reasonable variation.

Aside from No. 104, which we have already discounted, parcels Nos. 108 and 109 are the only ones that fall much below the average; these were rented in 1933 and 1934 for short terms which released them in 1938; No. 109 did rent for nearly twice as much up to 1931. Parcel No. 103 is owner-occupied, and so is No. 111, which is used with No. 110 and held under a ground lease at a rate reported to be 6 per cent of the land valuation.

Both blocks on the south side of the street exhibit far more uniformity in the rentals paid than is found on the higher-valued north frontage, if the aberrant parcel No. 8 be disregarded. This may be ascribed, in part, to the shorter tenures prevalent on the south side and to the consequent more recent and more contemporary dates when rentals there were agreed upon.

In the easterly block, the greatest deviations from the median rent per standard foot are 27 per cent above and 24 per cent below, which are within a reasonable spread; the low mark is for that corner which has previously been cited as out of line. In the westerly block, parcel No. 8 is occupied by a chain restaurant under a twenty-five-year net lease made in 1923. Excluding that as obviously not indicative, the highest rental per standard unit is $478 for the westerly corner (adjusted), which is 31 per cent above the median.

The very low rent for parcel No. 10 may be accounted for by its leasing in 1933 and by the fact that the owner receives nearly an equivalent rental from a popular restaurant in the basement, which cuts into and depreciates the store frontage. The next lowest price is only 26 per cent below the median, and that, too, should be modified because of a community of interest between landlord and tenant.

The median rentals indicate that the north side is regarded by the typical renter as 35 per cent better than the easterly block across the street and worth more than twice as much as the westerly opposite frontage. The pedestrian traffic counts taken for a number of years approximate the figures shown on the map and tend to confirm the great superiority of the north side. Although these counts were taken for traffic surveys (not economic) and cover a continuous twelve-hour period, the two to one ratio of the two sides in this block is significant when it is known that traffic on the north side has predominated by only about 25 per cent in the next block east and by about 50 per cent in that to the west.

Comparison of the rentals paid for the corner lots with the medians in the respective block-fronts shows that the advantage of such locations is definitely reflected in the excess paid in three instances. In parcel No. 101 the increment is 27 per cent; in No. 116 it is 50 per cent; and in No. 1 it is more than 90 per cent above the median. From examination of the three intersections where the corner development is in small stores, it appears that the increment does *not* extend beyond the actual corner occupancy. There is no quick progression of rental increases at any one of them and, in fact, a regression in one case.

SCATTERED LEASES CONVEY FALSE IMPRESSIONS

The profiles emphasize what every experienced and thoughtful appraiser knows and should bear constantly in mind: Any one, or a few scattered leases, may tend to convey false impressions. Value must be predicated upon logical conclusions as to the future capability of a property, supported by a reasonable preponderance of evidence — not hearsay.

The foregoing description of a specific district has been given to illustrate that by orderly analysis a survey of leases and an assembly of rental data can be made dependably informative as to the unit rentals which may reasonably be anticipated from such frontage.

DEVELOPMENT OF PROCEDURE

The procedure followed in resolving the known rentals into common units and in determining the subsequent capitalization process may now be developed.

In a preceding paragraph the common denominator selected was spoken of as the gross annual rent for typical ground-floor occupancy, with service and storage basement. Inasmuch as some may interpret gross rental to be the stipulated rental, others may conceive it to be the rent actually paid, and that which we propose to use is the total incurred (directly or indirectly), the term "occupancy cost" will be substituted hereafter.

The steps in the process are:

1. List in geographical order, by block-fronts, or such other divisions as may be desired, each known rental in total dollars per year and with notations as to whether gross or net, long- or short-term, flat or percentage, and the date when the lease was made or the terms modified.

2. Convert all such annual rentals to total occupancy cost by:

A. Subtracting known, or estimated, rentals for any upper-floor area that may be included.

B. Subtracting an adjustment for basement area that has been improved for display or sales use.

C. Adding, if paid by tenant, such portion of real estate taxes as may be allocable to land and ground-floor occupancy.

D. Adding, if paid by tenant, annual charge for amortizing during the lease period all remodeling and all new construction which reverts to the land owner.

E. Adding, if paid by tenant, annual cost of property insurance.

F. Adding, if paid by tenant, cost of heating (e.g., at $.15 to $.20 per square foot of floor area).

G. Adding, if paid by tenant, cost of repairs (e.g., $.05 to $.10 per square foot of floor area).

3. Convert the totals so found to unit occupancy costs by dividing the amount by the standard feet of land leased, adjusting for corner location, alley frontage, etc.

4. List these units, or mark them on a map, preferably in colors, to distinguish readily between those representing leases made in times of inflation, depression, and otherwise.

5. From analysis of their dispersion, their average and median, and from rental trends, develop units applicable to the near future.

6. Convert these adopted representative unit-occupancy costs to semi-net revenue accruing to the landlord by:

A. Subtracting allowance for vacancy and uncollectible rent (may vary from 0 to 15 per cent).

B. Subtracting allowance for operating expenses — except water, light, power, and cleaning, assumed to be borne by tenants (e.g., heating at $15 to $20 per standard foot; e.g., repairs at $5 to $10 per standard foot; e.g., management at 3 to 5 per cent of the unit cost as in No. 5 less allowance in No. 6A.)

7. These semi-net figures are the amounts which the average renter of that type and class of property will pay for the use of a standard foot of ground floor and basement in a building appropriate to the site and under the typical contract whereby the landlord pays all property charges and supplies heat. Thus they represent the income to the landlord which must be capitalized at a rate derived by combining factors for real estate taxes, building amortization, and yield upon capital investment, inasmuch as the approach followed herein is to find, first, the value of all the property used, and, subsequently, that of the land alone:

A. The factor for taxes should be the probable future rate, modified according to the ratio which assessments of this type of property are likely to bear to full value.

B. From the units found in No. 6, we can now anticipate the indicated value and can allocate that approximately between land and structure. Their ratios may range from conditions where the building equals the land to cases where it is only one tenth of the land. If the total be only $500 per foot, for example, the structure may well represent fully 50 per cent of that figure; when the total is $10,000 per foot, the building contributing to the value might be less than one tenth of the total. In this process it is desirable that one charge cover all forms of depreciation; a constant rate applied to the diminishing balance will best fit the economic trend of the property and protect the investor; 4 per cent reduces valuation to 66 per cent in ten years, and to 30 per cent in thirty years.

At 4 per cent, required factor is:	Building in Per Cent of Total Property Valuation							
	10	20	30	40	50	60	70	80
	0.4	0.8	1.2	1.6	2.0	2.4	2.8	3.2

C. The rate of yield should be appropriate to the stability of capital and income, reflect the potentiality of increment in both, and be consistent with the return from other forms of investment. It may be predicated upon the composite of the interest which must be paid for borrowed money and that to which the owner of the equity is entitled. A logical graduation of such rates may be set up by classifying property locations, as in the following schedule:

	LOCATION	CAPITAL INVESTMENT Mortgage		Equity		Composite
Class	Characteristics	%	Rate	%	Yield	Rate %
1	Highest rentals—assured stability. High rentals—assured increment	60	4.0	40	5.0	4.40
2	High rentals—assured stability. Medium rentals—assured increment	60	4.5	40	5.5	4.90
3	Medium rentals—assured stability. Low rentals—assured increment	50	5.0	50	6.0	5.50
4	Low rentals—assured stability	40	6.0	60	7.0	6.60
5	Medium rentals—dubious stability			100		8.10
6	Medium rentals—downward trend			100		10.15

D. To illustrate this capitalization procedure, a high-class block-frontage for which a unit rental of $1,000 has been adopted might be capitalized at 7.6 per cent, thus reflecting a value of $13,000; this is upon the assumptions that the tax rate of 4 per cent applied to a 70 per cent assessment requires 2.8 per cent, that the building is one tenth of the total, that amortization of 0.4 per cent is adequate, and that the location warrants the Class 1 interest rate of 4.4 per cent. Another frontage, on the fringe of the district, analyzed to produce a unit rental of $150 would be capitalized at 11.4 per cent, or a value of $1,300, under the assumptions of the same tax rate, building equal to the land requiring 2 per cent amortization, and Class 4 location demanding 6.6 per cent yield.

8. Having thus established a valuation of the land together with such improvements as are devoted to ground-floor tenancy, the value of the land alone may be deduced by subtracting from the capitalized figure produced as in No. 7 the depreciated value (per standard foot) of ground-floor and basement structure appropriate to, or typical of, the frontage in question. This might be generalized as follows:

For costly, modern building	$1,000
For costly, old building	500
For ordinary, modern building	600
For ordinary, old building	400
For ordinary, old building with modern front	500
For ordinary, old building, barely usable	200

Thus, in the foregoing examples the $13,000 valuation might represent $12,000 for land; in the other case, the $1,300 might indicate about $900 for land if old buildings prevailed throughout the vicinity, but might warrant a land valuation of only about $700 if modern structures predominated in producing the $150 rentals.

The foregoing relates to the development of unit prices for block-fronts, or parts thereof, by analysis and synthesis. Obviously, the process itself and conclusions therefrom may require modification when a particular property is under consideration. The example forming the subject for this discussion is not intended to develop an exact formula for accurate land valuation. Rather it is intended to illustrate a practical method by which sound deductions of land values may be obtained by an orderly and logical interpretation of basic data.

AN ANALYSIS OF CHANGES IN RENTALS

The chart shown on page 44 is offered as an illustration of methods that may be devised to serve better than stating un-

ANALYSIS OF LEASE RENTAL TERMS TO INDICATE TRENDS OF VALUE
INFLATION
DEPRESSION
TRANSITIONAL
YEAR
SUMMARY OF KNOWN RENTAL CHANGES IN DISTRICT
(in % of 1926)
MAIN ST.
SECONDARY ST.
INCREASE
DECREASE
TENANT
LEGEND
Terms made during period of Transition
Terms made during Inflation
Terms made during Depression
Beginning of Lease
Renewal
Speculative Change
Shoe, chain 1
Drug, chain 2
Market, local 3
Dress., local 4
Market, local 5
Store, chain 6
Bus terminal 7
RESERVE
Drug, chain, end of St. & Trans. chain
Dress, chain 12
Specialty, chain 13
Dress, local 14
Music Co., local 15
RESERVE

supported opinions upon such things as rental trends. It is an analysis of the changes in rentals specified by known leases for sixty-four properties in sixteen block-fronts in a smaller city than the one heretofore discussed.

For each block-front, or combination of the two sides of a street in some cases, the average of the rentals in that frontage is stated in per cent of the years 1935 and 1936 as 100. The period covered is from 1926 to 1950, but it will be seen that at both extremities thereof the number of leases is much less than in the middle decade. In the latter, there are sufficient to represent accurately the mutual judgment of owners and tenants as to the future of the district.

For each of the block-fronts a graphic portrayal of the facts was made similar to the two illustrations in this chart. The legend patterns distinguish quickly those leases which have been renewed or modified and those in which the tenancy has changed. The chevrons indicate a change in rental stipulated at some prior date when the lease was either made or renewed.

As an indication of the future for a block-front, those leases made prior to the depression period and which have continued without adjustment should be given less consideration than those in which the rental has been agreed upon during and since that time. It is significant that in all of those originating or rewritten since 1934 the trend is upward, although in some there is a lag of several years before any increase is effective. So many of them provide for advances in the next year or two that one may pass over the contra-influence of the natural propensity to give in the future in order to gain today. Surely, the mass judgment of those most interested and best qualified to prognosticate the earning capacity of these properties should outweigh any mere opinion as to their prospective utility when that opinion is only impressionistically based.

THE THEORY OF DEPRECIATION

VICTOR J. FREE, M.A.I.

The author of this article has given us a new thesis of depreciation in the application of the appraisal process. No doubt there may be room for argument in the acceptance of value as synonymous with remainder depreciation, but the premises are carefully grounded, and the theory should be of real interest to all students of appraising.—Editors

THE ESTIMATE of the reproduction cost of property offers no serious problem to the appraiser. If he is an accomplished cost estimator, he may readily determine by quantity analysis the cost of materials and by labor prices the cost of assembly. If he is not prepared to make these estimates personally, he may secure competent assistance from the estimator, engineer, or contractor. To these estimates of building cost he may add the demand price for comparable land. When this computation is completed, there remains one all-important question: Is it worth what it cost?

Seeking an estimate of value by comparison with sales of comparable properties predicates market value closely upon market price. It involves painstaking investigation to determine that sales actually made were at *prices* in conformity with *value*. The appraiser must bear in mind that if price and value coincide, then the price paid must conform at least to these considered concepts of value:

1. A reasonable time to find a buyer in a competitive market.
2. Knowledge of facts and property uses.
3. Absence of compulsion to buy or sell.

Rarely are two properties alike; rarely are they sufficiently similar to make reasonable building comparisons. The ramifications of comparative analysis are frequently endless and productive of more confusion than profit. If the appraiser has knowledge of a large cross section of sales of similar properties and if he is able to establish a fair value of a *typical* property, and then makes one comparison with the typical property only, there is greater hope that his estimate by comparison of sales will be reasonable and fairly within the zone of value.

An estimate of value by capitalization of net income has many reasonable aspects. Intelligently pursued, it indicates with some clarity the present worth of future money benefits to be derived from ownership. Its usefulness in the appraisal of income properties is recognized by appraisers everywhere. Its reliability, however, is dependent so largely upon two considerations, (1) the economic life and (2) the capitalization rate, that it becomes a dangerous tool for the inept or the inexperienced. It is not generally considered useful in residential appraising. However, if tolerance is given to a differing capitalization rate as between income expectancy for a home owner and an investor, a basic usefulness of the method may be found in single- and two-family house appraising. Variations of the economic approach are useful in both appraising and selling homes when examined to show the cost per month to the purchaser through reasonable remaining property life.

In the appraisal process the technique of the appraiser is employed constantly in the detection of possible changes in the future status of property. Because buildings have terminable lives, it is apparent that differing losses of value will be sus-

tained at different life stages; because land utility may improve, land value may increase. The valuation of real property would be greatly simplified if these forces and their measurement could be eliminated. Changes are taking place constantly everywhere; especially are they apparent in American cities where changing neighborhoods, business methods, styles, and art play so large a part in living. Therefore, there is cast over all property the shadow of anticipated loss through changed conditions that cannot be currently known.

DEPRECIATION IS THE REAL PROBLEM

Depreciation is loss of value from any cause. No appraisal should be made without considering depreciation. No appraisal is better than its treatment of the depreciation problem. No reasonable value estimate should be presented that has not thoughtfully considered depreciation. No approach to the value estimate should ignore it. Evidence of loss may be treated differently in differing approaches, but its existence in each and any of them may not be doubted. Man-made things are always perishable or subject to degrees of change.

Depreciation in buildings begins when they are created and terminates with the end of physical or economic life, as the case may be. The appraiser approaches his problem at a moment in time when the building is at some life stage. When he sees the property, its life depreciation is separated into two parts—*accrued*, in so far as past life and present condition are concerned, and *remainder*, in so far as future life and benefits have significance. He must determine how *accrued* depreciation *has* affected value and how *remainder* depreciation *will* affect it. He must keep constantly in mind the fact that he is estimating the present worth of future utility. In that way only may he weigh the effect of accrued depreciation and measure its importance in reaching his conclusion. In that way only may he measure depreciation of the future.

Depreciation manifests itself in three ways: physical deterioration, functional obsolescence, and economic obsolescence.

1. *Physical deterioration*: Loss through decay, wear and tear, service, and the elements. It may proceed slowly if checked by careful maintenance and repairs and very rapidly if neglected. It is the general absorption of physical value; it is the natural progressive fate of that which has a terminable life. It includes the lessening in value of equipment, such as plumbing, heating, and electrical installations.
2. *Functional loss* (*obsolescence*): Loss through under- or overcapacity, as compared with the typical use requirement, and inadequacy, as it connotes failure to deliver services. One bathroom in a four-bedroom house indicates a functional fault, as does also a poor relationship of rooms or the lack of maids' quarters in a neighborhood where most people employ maids. There may be many functional faults in property; they include all factors which prevent maximum services and full utility.
3. *Economic loss* (*obsolescence*): Loss by reason of a changing neighborhood through encroachment of business or industry or by the infiltration of alien, colored, or undesirable racial groups. Anything affecting the character or degree of utilization brings economic loss, such as zoning regulations that prevent maximum utility, overproduction of the type and character of property, etc.

Relative desirability compared with a new and hypothetically perfect property is the measure of "accrued depreciation." Present worth of future benefits, wisely considered and reliably estimated, is the measure of "remainder depreciation."

The sum of these two estimates may not equal cost new, but such sum of accrued and remainder depreciation does measure life utility, and the point of their separation marks the moment of appraisal. If the appraiser computes accurately that utility which is exhausted and that which remains, his estimate of value approaches reasonableness, for in many appraisals an estimate must be made of both accrued and remainder depreciation before the present worth of future benefits can be established.

THREE PROCEDURES IN MEASURING DEPRECIATION

There are three procedures in the measurement of depreciation:

1. The observed method.
2. The straight-line method (and variations).
3. The annuity method.

Just as in the three approaches to the value estimate, when the selected approach is checked by the other two in order that the zone of error may be narrowed, so is it advisable to rely mainly upon one measurement of depreciation, supported and checked by the other two. For example, if reliance is placed strongly in the observed method, it may later be checked by years-percentage tables or by estimated remaining economic life to determine plausibility and reasonableness. Or, if the appraiser starts out with age as a determinant, let him nevertheless check his results by observation and remaining utility. Age alone, interpreted by percentages of life, may be far from the proper estimate of accrued depreciation and may cause serious error in an estimate of remaining life and indicate a value estimate not reasonably substantiated.

An appraiser must be a trained observer, and he will be influenced greatly by what he observes. His value estimate must be controlled largely by interpretation of his observations. It is therefore reasonable that his reliance be placed upon the interpretation of those things which he has *seen* and *considered* in his examination of the property which he presumes to appraise. It is not sufficient that he compute by years-percentage the accrued depreciation; nor is it adequate that he rely only upon an estimate of remaining life. Either of these concepts may be materially changed by a carefully determined estimate of the *cost to cure* observed depreciation.

If the *cost to cure* observed depreciation—deterioration, functional faults, and economic losses—can be determined quite accurately in terms of money, cannot the zone of error in depreciation losses be greatly narrowed? And if the probability of error in the estimate of depreciation is lessened, cannot the value estimate (valuable only as depreciation is accurately measured) be more reasonably established? For, after all, does not your legal definition of value begin with the statement, "Value is that price in money" . . . . which the buyer would pay? And if value is measurably determined by the "price in money," should not depreciation be so measured in terms of money? Measured, first, in *cost to cure* that which has accrued and which is curable and, second, in terms of money to estimate that which remains? In the opinion of this appraiser there is one reasonable method of determining *accrued* depreciation—by observation—and one method of determining *remainder* depreciation—by measuring re-

maining utility. Therefore, that which follows must depend for reasonableness upon the ability of the appraiser to observe what has happened and to estimate reasonably that which will happen.

This concept of depreciation embraces the following questions:

Can *physical deterioration* be measured in money by cost to cure?

Can *functional fault* be measured in money by cost to cure and by sales resistance due to its presence?

Can *economic obsolescence* be measured in money by capitalization of loss of income by reason of its existence?

Therefore, can depreciation—whether *accrued* or *remainder*—be estimated in terms of money? *Almost wholly*—by *observation.*

And it is submitted that, if depreciation of all types can be measured in money "almost wholly" by observation, determination of sales resistance, and capitalization of rental losses, then the appraisal process and the estimation of value have been rendered more nearly reasonable and within the zone of probability.

PHYSICAL DETERIORATION

Physical deterioration may proceed slowly or rapidly, depending upon the care in use and the degree of maintenance. Two identical houses on land equally valuable may have wide divergence of value in middle life. Age-percentage computation of depreciation losses might indicate identical present values. A comparatively recent appraisal procedure endeavors to correct this error by assigning arbitrarily an "effective age" to which the percentage of annual loss may be applied. Such efforts to estimate accrued depreciation are based upon guesswork that would vary according to the opinion of the appraiser. *Cost to cure* deferred maintenance in the poorly kept house would be a reasonable measure of the difference in value. Such cost, reduced to years of time, might be significantly different from the estimated variance between actual age and "effective age."

FUNCTIONAL OBSOLESCENCE

Two houses, side by side on equally valuable land, may have the same reproduction cost new and may have been built at the same time; they may have been maintained equally well. Yet values may be widely different through functional depreciation. One house may be typical of residential requirements in that neighborhood, having the necessary rooms and baths, layout, and design. Its percentage of adequacy and conformity may be high. The other house may have many functional faults; it may fail largely to deliver services of the kind and character demanded by buyers of houses in that neighborhood. Is it reasonable to believe that any years-percentage theory may be invoked to establish a difference of depreciation in these two houses? Would it not be more nearly reasonable to estimate *cost to cure* of curable faults, narrowing the zone within which pure estimate must be employed? And in a consideration of that functional inadequacy which is not exactly measurable in terms of money cost to cure, is it not possible to estimate it reasonably in terms of sales resistance and undesirability, measured in money loss, rather than apply any measurement of percentage in relation to cost new? Concisely, may we not estimate most of functional loss in terms of cost to remedy and leave little of it in the realm of guesswork?

ECONOMIC OBSOLESCENCE

Loss of value through economic obsolescence is apparent if the neighborhood has changed through racial encroachment, through a change in the use of the land,

by reason of zoning restrictions, or by the imposition of some other economic law of change. It cannot be estimated as a percentage of reproduction cost new. It has nothing in common with reproduction cost—nothing to do with cost in any analysis. Its measurement must be otherwise if it is to be estimated reasonably or intelligently. The estimate of economic loss is economic inutility. It may best be estimated dollar-wise by capitalization of the money loss through estimated comparative failure to produce normal income. If one apartment building in midlife ideally located produces a net income of $4,000 per year and another apartment building of the same type but not so located produces $3,000 per year, the economic obsolescence of the latter property is measured by the degree of its failure to produce a normal income, namely $1,000 per year. If that amount is capitalized at a considered rate of interest, dollar measurement of economic loss might be reasonable. At any rate and under all conditions, such obsolescence would be assigned to the realm of relative utility, where it belongs, rather than to reproduction cost with which it has no relationship.

Many appraisals come to the attention of the writer for review and analysis. Some represent the appraiser's studious consideration of institutionally owned properties, the sale of which is the chief concern. Most of these properties are "problems"—some are at varying stages of physical deterioration; many are suffering from inadequacy in the rendering of services; and others have been depleted by the ravages of obsolescence. And naturally there are those that are suffering from all three of these forms of depreciation.

Many of these appraisers find their estimate of value by deducting from reproduction cost new an over-all percentage for depreciation from all causes. Many others break the estimate into its elements with separate rates for physical deterioration, functional obsolescence, and economic obsolescence and add them for a single over-all percentage, and that percentage, which varies with different appraisers from 30 to 70 per cent for one property, is applied to estimated reproduction cost to determine depreciation loss as well as present worth. Less objection might be found if these percentages were established from loss of value, rather than the loss of value established from the percentages. Assuredly, there is room for refinement of such procedure. The fact that his assumptions and procedures are not readily observed to be fallacious in no wise excuses the appraiser for reaching into thin air for a percentage of value loss through depreciation.

Most of the foregoing discussion has considered *accrued* depreciation only. It has been presented in the belief that accrued *loss of value from any cause* may best be measured by cost to cure in so far as physical deterioration and curable functional faults are concerned. Losses from economic obsolescence may best be measured by capitalizing loss of income through inutility. It may here be suggested that the latter operation will automatically pick up such functional obsolescence as may be incurable and otherwise not accounted for. It is reasonable that such failure to render services is reflected in loss of income, the same as is an encroachment or other factor of economic obsolescence.

REMAINDER DEPRECIATION

Remainder depreciation—that which lies in the future—is cured by return of capital in the annuity procedures of the income capitalization approach to value. In its calculation the observed method plays little part. It is not possible to try to ob-

serve that which has not yet happened. It is reasonable to estimate how many years the property will return benefits and from that to compute the annual amounts necessary during remaining life for the restoration of capital investment. It is reasonable and possible by observation and knowledge to make prophecy of that which *will* occur by contemplation of that which *has* occurred. The investor is concerned with two things—a fair compensation for the use of capital and sometime in some way the return of capital. The return of capital accounts for remainder depreciation. If the total of improvement valuation is returned, it being the assumption that estimate of value is correct, the investor is satisfied. The return of capital and valuation itself depend in the income capitalization approach upon:

1. Accurately calculated net annual return.
2. Remaining economic life.
3. The capitalization rate.
4. Factors employed in the conversion of annuities.
5. Procedures used in determining present worth.

Accurately calculated net annual return: It should no longer be necessary to insist that net income only is a reasonable basis in seeking economic value. Multiples of gross income or gross effective income, unless in exceptional cases, have too great a variance to be reliable. The appraiser who concludes that a property is worth five times its gross annual income, or one hundred times its monthly rental, deals in possible tendencies but in improbable relations. Neither is it advisable to establish ratios of net to gross income or gross effective income. Variance is too great in buildings that may appear to be similar. Net income of one building may prove to be 50 per cent of gross, and of a similar building 40 or 60 per cent of gross, depending upon many considered data, both physical and economic. The trained and workmanlike appraiser will determine with great accuracy in each appraisal the net annual return to property. When he has thus proceeded, he will have one concrete, usable fact and not a variant of tendencies.

Remaining economic life: Estimation of remaining economic life in property improvements calls for considered judgment, much experience, accurate interpretation of relevant data, and a reconciliation of trends and social behaviorism. It is not sufficient nor adequate to assume that the age-percentage remainder of physical endurance is the answer. All appraisers know that a building sixty years old may well have thirty years of remaining economic life, while another that was built ten years ago may not have more than five years of remaining economic usefulness. The appraiser who is sincere and qualified will find an answer that lies within the zone of reasonableness and which is in conformity with his judgment and experience. This will be his second step in seeking value, which means estimating depreciation.

The capitalization rate: A capitalization rate should receive considered judgment, selected after net income and remaining life have been determined. This rate of capitalization (or discount of annuities) carries with it in standard procedures an amortization rate for capital return. And capital return *cures remainder depreciation.* If straight-line depreciation is employed (always questionable), the capitalization rate must nevertheless be selected with care and knowledge, judged in the interpretation of data that are relevant and factual. A rate for capitalization may best be built up from its components of safe rate, rate for risk, and rate for service. If so considered and scrutinized, the

element of risk (only important variant) may be analyzed and specified accurately in relation to net income and to remaining economic life. Wide differences of indicated value may result from hastily or carelessly selected capitalization rates. The importance of this third step in the search for an estimate of economic value is so well known and so important among appraisers that it should not be necessary to emphasize it further.

Factors employed in the conversion of annuities: There are three well-known and widely used tables of factors by means of which the present worth of determined annuities (net annual incomes) are discoverable. The selection of a factor becomes the fourth step in the determination of present worth (including interest and depreciation). (1) The factors of *The Compound Interest Valuation Premise* (Inwood) presume a level annual income with interest at a selected rate and with a partial return of capital each year. What the investor does with this return of capital is unimportant so long as he receives it. It represents *reimbursement for depreciation,* annual recovery of a portion of the value of a wasting asset. (2) *The Hoskold Sinking Fund Valuation Premise* also presumes a level annuity (unless specifically modified by factors of declining income). These factors combine an interest rate with a sinking-fund rate for the return of capital within the economic life. Capital is returned in one sum from the sinking fund at the end of estimated utility. (3) *Babcock's Declining Annuity Tables of Factors* presume that annual incomes (annuities) will decline. Usually they do decline. Four major premises are considered. In three of them the factors are determined in accordance with a declining curve of income expectancy. Like the Inwood premise, the Babcock procedure returns interest on yearly balances and restores a part of capital (remainder depreciation) each year.

Procedures used in determining present worth: Finally, the appraiser must select a procedure. There are three, known as follows:

1. The land residual procedure.
2. The building residual procedure.
3. The property residual procedure with land value reversion.

Selection of that procedure which is reasonable in relation to the problem at hand is important in consideration of depreciation. It determines the valuation of annuities in relation to remaining life, age, condition, and character of property.

1. *Land residual*: Used most accurately and effectively when buildings are new—when they represent high or maximum land utility—when building costs are known. In such procedure remainder depreciation alone is considered. It is equivalent to the building value and is wholly returned as amortization during economic life.
2. *Building residual*: Used most reasonably from the early period of building life to the stage where the end of economic life is clearly apparent. For three-quarters of the life of improvements it is the most valuable and usually the best procedure. By the building residual process such depreciation as has arisen from over-, under-, or misplaced improvement becomes quickly apparent. In this procedure, land value remains constant and building value—unexpired depreciation — depends upon the quantum of income inputable to it. Let it be understood that no procedure which determines reproduction building cost, less accrued deterioration in middle life, may then accept such evidence of

building value in a land residual process. If evidences of other types of depreciation, as functional and economic obsolescence, are to be segregated, then the building residual approach only is reasonable.

3. *Property residual (with land reversion)*: Used often when the end of economic life is plainly in sight and ultimate land value may be reasonably estimated. It is quite possible to determine in the last few years of economic life of improvements just what degree in utility of land is apparent. It is possible also to measure in money its present reversionary value at a fair rate of discount. There are many occasions when land values are increasing rapidly and building values are decreasing rapidly that a property residual procedure in the treatment of annuities of short duration will prove wholly reasonable.

DEPRECIATION PARAMOUNT FACTOR

The most important single factor of a reasonable value estimate is depreciation. Upon its consideration and treatment the appraisal stands. If the appraiser approaches his problem clearly through preliminary examination, he should be able to determine procedure, and, having determined it, he should *rely upon it.*

Cognizance of depreciation, accrued or remainder, should be taken in each step of his appraisal after the selection of a procedure. Depreciation influences net income, determines economic life, carries weight in the capitalization rate, determines the proper conversion factor, and suggests the residual procedure.

HIGHEST—BEST USE

MORRIS B. ASHTON, M.A.I.

IN defining the concept of "highest-best use," *Appraisal Terminology*[1] says, "That use of, or program of utilization of a site which will produce the maximum net land returns over the total period which comprises the future. The optimum use for a site"; then in smaller print adds,

> "Generally termed 'Highest *and* Best Use' and therefore often confused to mean 'the largest possible structure' or else 'highest (ultimate) use,' even though a site may not be ripe for that use."

It is a good thing the terminology committee inserted the above comment. The image of the "highest building" sometimes conjured up by our subject should be dispelled forthwith, particularly in these days when in many instances the tallest buildings are not doing as well as we fondly hoped they would.

Ten years ago, and theretofore, many people thought, as they gazed at the latest imposing skyscraper, that surely such a structure was the *highest* and *best* use for the land on which it rested and for all the rest of the land in the office building district. It did not occur to them that the available office building sites could provide many times more office space than could be used profitably.

The same holds true of apartment sites. Chicago, it is reported, zoned only 2.9 per cent of its total land area for single-family use, but zoned 19 per cent for two-family use, 13.1 per cent for multi-family use, and 14 per cent for commercial use. (The balance provided for streets, public land, and manufacturing and miscellaneous uses.) Of course, the allocation of uses was sadly out of balance. Hardly one half of the land zoned for two- or multi-family use was so used by 1936, while the single-family use overflowed its zoned area almost five times.

There is an economic background to the idea of highest-best use. The productivity of any given parcel of land is determined or accomplished by the application of units of capital and labor measured according to the law of increasing and diminishing returns and with due consideration of the probable future interplay of the relevant factors of demand and supply. This may be freely translated as: estimate what land will earn by what you think its best use will be from now on. The economic verbiage means that if you want to know what a residential lot is worth you find out by putting on that lot (hypothetically, of course) a number of different buildings and consider what each combination of land and building might reasonably bring in the market. If you try all the likely combinations, the one that will return the building cost, plus the largest price for the land, is the highest and best use of the land and indicates its true value.

In an apartment house site, try out the available and likely combinations of stories, apartments, and rooms until the combination results that will bring net income to provide for (1) a return of investment in improvements over a reasonable period of time; (2) an appropriate rate of interest on the investment remaining in the improvements from time to time; and (3) the maximum probable return attributable to the land. Thus the land value (based upon its prospective net income) is residual in character in so far as determination of its best use is concerned.

In making an appraisal of land already improved with an actual building, the ap-

[1] Education and Research Committee, American Institute of Real Estate Appraisers, *Appraisal Terminology* (2nd ed.; Chicago, 1938), p. 39.

praiser really considers two buildings: (1) the hypothetical building that reflects the highest-best use and (2) the actual building, which very frequently lacks in some respects the facilities and space arrangement of the ideal best improvement.

When the total value of land and improvements must be segregated, it is customary, however, to make the building value residual and the land primary, or fundamental.

FACTORS CONTROLLING HIGHEST-BEST USE

Highest-best use consists of type, degree, and duration.

Type of use: The land in any community has many uses, such as streets and alleys; parks and playgrounds; public and institutional buildings; and commercial, industrial, and residential (apartments and homes) purposes.

The best location for each of these uses is an important problem in appraising as well as in city planning and zoning.

Most readers of the *Journal* are familiar with the general pattern of city development around a central business district, with the industrial and wholesale districts fairly near (tying in with heavy transportation facilities) and residential districts reaching toward the locations of natural advantages of interesting view, topography, wooded sections, etc. We need not dwell at length on the pattern of the city except to point out that much of the land can be devoted to more than one use: industry seeks lake shores and river banks for their ease of access by rail and water; residents seek the same locations for their protection of view, light, and air. Residents also compete with institutions (churches and schools) or with storekeepers or others for the same location. In such contests the victor is sometimes determined by priority of occupation, but more often by ability to pay the largest price for the land. In effect the allocation of land is made according to the monetary bidding strength of the competing uses. Such competitive bidding is not entirely free, however, as the use of land is limited by such measures as zoning restrictions, building codes, sanitation, and other controls exercised supposedly in the public interest.

Individual plots of land fit into various types of uses in much the same way as individual human beings fit into various activities. They both have certain capabilities, depending not only on their native capacities, but also on their environments; they both fall into grades of productiveness as measured in dollars; they both tend to adapt themselves to that to which they are best suited, yet sometimes find themselves unsuitably employed. The analogy could be carried on indefinitely.

Degree of use: It is not enough, as an editorial in the October issue of the JOURNAL pointed out, to decide merely the best type of use to which a parcel of land can be put, but the appraiser must decide also the maximum income available from such a type.

Suppose, for instance, that a certain location would be best improved with a one-story building; the appraiser must also determine what occupancies such a store could accommodate, what size the store should be, what facilities it should offer, and, finally, how much rent it would produce under prevailing conditions.

Duration of use: Value is based upon the future. It is what we think the income should be from now on that determines the worth of land. "Should" does not here imply any moral or prefixed order of things; it means rather that good judgment of highest-best use of real estate should start with a disregarding of present improvements, leases, and surroundings. This view is taken first for pur-

poses of orientation to establish the ideal use which we then proceed to modify according to the existing circumstances.

Perhaps our particular piece of land in a retail commercial location is strong enough to warrant a two- or three-story building occupied by a single tenant. The return to the land under such use might exceed that of our present one-story structure. Or the situation might easily be reversed: a two- or three-story building, because of lack of demand for upper-story space, might be a burden to the land and not return as much to it as would a one-story building.

The terms of existing leases consummated under differing conditions frequently do not conform to the current market possibilities. Where such a situation exists, the actual rents do have an important influence on the value of the property, but they do not alter nor determine the land value. If a 1928 lease is still in effect at a higher rental than could be obtained now, the excess income above the "market" has a value that would best be set up separately from the value of land or improvements as something attributable to extraordinary management or good fortune. Furthermore, such excess is likely to be of short duration. Competition enters and a new balance soon obtains.

One must be wary of ascribing highest-best use merely from the nature of the surrounding improvements. Because an apartment building is in the midst of other similar buildings does not necessarily mean that the land is improved to its best use. It might easily be in one of those deteriorating districts that the modern tenant in his automobile is beginning to leave for the outlying but more desirable sections. The appraiser must watch for those instances where the waves of demand and supply have washed away the old, supposedly best, use. There are apartment house and store locations in every city where, with improved transportation, a change of economic or social make-up of the district, or a material increase of supply of like buildings, the land is found to be burdened with its "income" building. At best, it might now have as its ideal use the single-family home. Though a realistic view of the situation prevents a change of use, the ideal indicates the real maximum land value.

In our changing world, the utmost caution and conservatism are essential in choosing improvements for land. To make land valuable enough for apartment buildings, it must have more than just good accessibility (transportation). We cannot stack apartment houses row upon row and expect them to pay well for many years. They need protection of adequate air, light, sunshine, and recreational facilities necessary for good, healthful living. Otherwise Mother Nature, on the outskirts of the city, will crook her finger, beckon, and the tenants will flock out like the children who heard the tune of the Pied Piper.

When we all went about on foot, building congestion would have saved a lot of time. Now, however, that we have developed fast transportation, good roads, and automobiles, our cities take on an entirely different pattern. The strange part of it is that we are so slow to recognize the change. It seems the taller the structure the more vulnerable its value.

The changes taking place in the city pattern and in the character of the close-in neighborhoods tend to limit the duration of many uses as well as the property incomes therefrom. We are cautioned to devote residential land to single-family use unless it is in very strong demand and is well protected as to those facilities and amenities which will insure its desirability for other use.

Store properties, too, are subject to variations of the same forces. Population that is pushing outward is pulling business with it. A given population can support a certain volume of business. The appraiser, analyzing a parcel of commercial land, must know fairly well the effective demand for store facilities in the district. This knowledge of demand must be balanced against the supply of land available for store business to determine use and value. The strongest retail location should then be determined and valued. From there, the adjoining land values taper off in accordance with the needs and trends of the district.

There are two movements in store locations worthy of special mention: (1) the store follows the direction of the greatest purchasing power; and (2) the land needed for a given volume of trade is constantly decreasing. A new department store of several floors, for instance, will increase the business done on that given land and will tend to decrease the business done elsewhere. This latter movement gives rise to strong central shopping locations and strong subcenters rather than and at the expense of locations of only mediocre strength, especially long string-streets.

Duration of land uses is a subject of sufficient importance to deserve more space than can be given it here. It is sufficient for our purpose to point out that different types of property have income lives of various durations. Residential properties and neighborhoods tend to have definite life cycles, much as do human beings, only shorter. A new building in an old neighborhood has at least one strike against it even before it is completed. A well-entrenched, strong retail store location may be considered productive for a long period yet to come. Subcenters, particularly, may be expected to continue or increase in land value; but mediocre store locations need very close analysis before being ascribed commercial use as the best use for any considerable length of time.

APPRAISER MUST RELY ON OWN JUDGMENT

Because so frequently land is not improved to its best advantage, the appraiser must rely upon his own judgment and not slight it because it may indicate a use that is at variance with custom. The words of Emerson in his essay on *Self Reliance* are apropos:

> "To believe your own thought, to believe that what is true for you in your private heart is true for all men,—that is genius. . . . . A man should learn to detect and watch that gleam of light which flashes across his mind from within, more than the lustre of the firmament of bards and sages. Yet he dismisses without notice his thought, because it is his. In every work of genius we recognize our own rejected thoughts; they come back to us with a certain alienated majesty."

Of course, all relevant data must be gathered and analyzed, but the results must be interpreted with reasoning and the judgment that are the very essence of appraisal skill. The appraiser cannot let someone else do his thinking for him. Though every lot in the block may be improved with an apartment building, if the appraiser, after careful consideration, feels that the advantages of the location are not sufficient to warrant an improvement as costly as an apartment building, let him honestly stand by his conviction and say the land is "over-improved." If his judgment is good, his conclusions logically supported, then time will vindicate him.

Just as sales prices do not always indicate true value, neither do buildings already erected on land nor zoning ordinances always guarantee highest-best use. Buildings, zoning, and sales prices are material factors in appraising the value of property, but sometimes they are false indicators. Against such instances, the

appraiser must, in the final analysis, rely on his own judgment; he must be, as Bonbright says, a critic of the market.

THREE ESSENTIALS

To judge expertly highest-best use, the appraiser must know (1) the property, (2) the community, and (3) the principles of land utilization.

Property denotes rights, ownership, and title; it is also commonly used in referring to actual land and the structures thereon. In both senses, the appraiser must know the property: the degree of ownership (commonly, fee simple), the limitations by zoning and other restrictions, and also the size and shape of the lot, the condition of the soil, and the availability of utilities and services. He will do well to verify his collected data, to be certain the property is what he thinks it is, to be sure he sees what he thinks he sees.

The study of the *community* can be divided into (1) the neighborhood and (2) the city. Urban land attains value not so much from the ground itself, but because of its location with respect to the activities of the people who might use it. The services afforded by the location are in demand; the neighborhood contains facilities for transportation, shopping, education, religious worship, association with neighbors — environment in general; it has its own reputation (of people) and character (of land uses) that are very important in determining the appropriate use of any lot within its boundaries.

Land values increase as the city grows in population and resources. Given the size of a city, its economic status, the character of its population, and the supply of its land (special features of abundant or restricted supply), the experienced appraiser can estimate the city's probable range of land values. This is a simple balancing of the high lights of community demand against the known peculiarities of the supply of land.

The trend of the community's economic history is very important. Even a casual acquaintance with the country's current history would indicate the strong demand for housing and commercial space in cities such as Washington, D. C., Houston, and Los Angeles. At present the national population and income are fairly steady, resulting in a fairly steady demand for real estate. However, when the demand is very strong in one section of the country, it becomes automatically weak elsewhere, and just at present the weak spot seems to be nearer the geographical center than the coast lines. There seems to be a definite trend of migration toward coast cities of favorable climate and opportunity. There also appears to be some tendency toward decentralization of industry, especially wherever industrial centers are particularly vulnerable to labor troubles.

A city's buildings reflect the character and status of its people; hence the current trend of the city's commerce and social development tend to dictate the types and location of its future buildings. A residential district must have adequate provisions for healthful, pleasant living, or its value will decrease rapidly. The same is true of apartment districts. When our cities were growing rapidly and the demand for housing accommodations was very strong, some of the facilities necessary to good living could be overlooked; but now that the rate of growth of many cities is decreasing, tenants are beginning to demand better housing. One of the forms of improving existing housing is through the enactment of laws which prescribe minimum standards. Other cities will probably follow New York City's example in requiring rehabilitation of old housing to let in more light and air and to provide more adequate sanitation facilities, more regu-

lation of use and occupancy, and other similar provisions intended to promote health, safety, and the general welfare of tenants.

The appraiser must know the community, its history, character, trends, and economic relationships well enough to form sound opinions as between the demand for and supply of land for the different categories of use.

There are certain fundamental *principles of land utilization* that have a direct bearing on value. We have already discussed some of these, but they can hardly be overemphasized. They have been listed as the principles of balance, economic contribution, scarcity, utility, substitution, and anticipation. Every decision concerning the highest-best use of land should be made in accordance with these principles.

We have just considered the necessity of distribution or *balance* of land uses according to the character of the city and neighborhood. We considered, at the beginning of this article, the principle of *economic contribution* in selecting building improvements as a means of determining the maximum productivity of the land. This is a proportioning of the factors of production (land, labor, capital, and management) to get the best possible result.

Scarcity and *utility* are concerned with supply and demand. These we have also considered. We well know that the value of any article of utility depends upon its relative scarcity. Air is essential to life, yet it is so abundant that it is considered a free good. A collection of rare stamps or coins is not an essential yet because of scarcity often commands a very high price. Land itself is relatively abundant, but parcels of land suitable to the various urban uses take on a great variety of degrees of scarcity. Land suitable for a department store, or an office building, is relatively scarce. The actual degree of scarcity depends, in part, on the *utility* of the location, that is, its power to satisfy wants of people. A location very accessible to a large number of people has great utility. It may be highly utilized. The productivity and hence the value of land is primarily an expression of the relationship between its utility and scarcity.

The supply of land depends partly upon the cost of bringing it into use. The supply of residential land, particularly, has been vastly increased, as has been pointed out, by improvement of transportation. At no greater cost of money, time, and effort, home owners can live much farther away from their place of employment than was possible ten years ago. To emphasize what this means to land values, suppose a city has a circular boundary with a radius of five miles. Its area would be about 78 square miles. If something develops which allows home owners to go out ten miles as conveniently and economically as was formerly possible for them to go the five miles, the available supply of land would tend to increase, not merely 100 per cent, but 300 per cent, to an area of about 315 square miles. If the supply tends to increase with transportation improvement, the value of the former land supply would tend to drop substantially. That is exactly what has happened during the last ten years. The available supply has increased, and land values have decreased.

Of course some regions have grown rapidly enough so that the demand for land has increased faster than the supply, thus increasing land values. The history of real estate developments indicates, however, that it does not take very many years for the supply to catch up and even pass the demand, bringing a reversal of the value trend.

The principle of *substitution* involves the element of competition between not

only different types of use, but also between different degrees of use within each type. Its operation is in some respects similar to that of Gresham's Law of Money. Where two types of money are in use together, the cheaper money will drive the better out of circulation. The same rule has considerable application to real estate. In a residential neighborhood consisting of two classes of occupancy, the less desirable will drive out the better class. Where similar properties are held at two price levels, the lower will govern the market.

Land uses are not fixed; they are in a state of flux. True, the changes are so slow as to be almost imperceptible, but they are also almost inevitable. There is always competition between multiple-family and single-family uses, between the apartment and retail stores, between the downtown and outlying stores. The succession of uses, however, does not always lead to a lower return to the land. That use which offers a greater yield to the land, in addition to paying the capital cost of the change, will take what it needs unless outlawed by zoning or some other restriction. There are some apartment sections in large cities where the apartment units are large (seven to eleven rooms) that are now being remodeled into two- to four-room units which will bring the owners an increased rate of return. Perhaps such a change may bring into the neighborhood a class of people of lower incomes than those of the former occupants, yet the change will increase the earnings of land and buildings sufficiently to justify itself.

This illustration of change of use by remodeling points out that highest-best use may not be a single continuous use in all instances. Sometimes the best use of land will be a succession of uses. Income properties very commonly are remodeled during the lifetime of the building. Even large homes sometimes become rooming houses or shops. This introduces the principle of *anticipation*. Buildings are built in anticipation of a future return. They are generally built for a "coming" use. Land values, accordingly, have always had some element of anticipation. Prior to recent years it was generally thought that land values would inevitably rise—perhaps they still will as a whole. At any rate, we have always built in advance of the demand. It is true that mistakes in gauging the demand have been frequent. Perhaps most of them were not conscious mistakes; unforeseen changes occurred or foreseen changes occurred sooner than expected.

This fact calls two things to our attention: (1) a conservative policy should be followed wherever doubt exists concerning the highest-best use; and (2) wherever buildings exist that are not any longer the highest-best use of the site and such buildings are typical of the district, there can be no more profitable available use of the land until changes have occurred to such an extent as to justify not only the new land use, but also the cost of rebuilding.

To summarize, a study of the "highest-best use" is an essential step in the estimating of land value which is inevitably dependent upon the character of the community and the economic principles of land utilization.

THE SELECTION OF A BUSINESS SITE

MALCOLM J. PROUDFOOT

BUSINESS establishments are subject to severe competition, and are extremely susceptible to failure, particularly during their first year.[1] Many consider managerial ability the primary requisite of business success. But it may be too late for good management if a faulty business site has been selected.

Practical considerations enter into selecting a business site. Questions of capital, merchandising or technical skill, and the kind of business to be operated are not covered in this article. This discussion concerns the initiation of a business establishment and supplies an overview calculated to assist in selecting a business location and a specific site at that location.

When a particular kind of business has been selected for initiation, knowledge of the type of location where it is likely to prosper is necessary. These location types are eight in number, six urban and two rural. The city types are: (1) the central business district; (2) the outlying business center; (3) the principal business thoroughfare; (4) the neighborhood business street; (5) the isolated business cluster; and (6) the isolated business outlet. The rural types are: (1) the village business cluster; and (2) the isolated roadside business outlet. To assist in the final selection of a business site, it is important to consider: (1) the general character of each type of business location in relation to its customer tributary area; (2) the kinds of business found to prosper at each type of location; and (3) those conditions which should be considered in selecting a business site at each type of location.

To illustrate the general points covered in this article and to avoid confusing the argument with redundant examples, two figures are presented. A map is used to give a bird's-eye view of the location types to be described as these are commonly found in cities of varying size classes. A chart of kinds of business is given to provide ready reference for those wishing specific examples of the varying role assumed by each kind of business in its effort to obtain the best site.

Figure I is a schematic portrayal of retail structure showing cities of various population sizes in a rural setting, based on studies of the allocation of individual business census schedules for 1933 by blocks for the cities of Chicago, Philadelphia, Cleveland, Atlanta, and Des Moines, and on reconnaissance in the rural portions of several states. This figure illustrates also the interrelation of the various types of business areas.[2]

Figure II is a generalized presentation seeking to evaluate site by location types for a comprehensive number of kinds of business. The data for urban areas are based on reconnaissance and location analyses in the cities of New York, Chicago, Philadelphia, Washington, Baltimore, Milwaukee, Cincinnati, Nashville, and Knoxville. The rural evaluations are based on intensive field work in Connecticut, Massachusetts, New Hampshire, Tennessee, and Virginia, supplemented by reconnaissance in Pennsylvania, Ohio, Illinois, Wisconsin, and Iowa. The results

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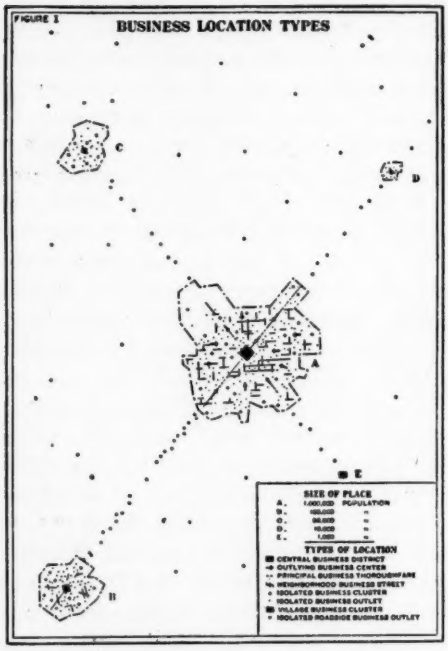
[1] Edmund D. McGarry, *Retail Trade Mortality in Buffalo, 1918-28: Groceries, Drugs, Hardware, and Shoes* (Buffalo: University of Buffalo Bureau of Business and Social Research, 1929).

[2] For a substantiating example of retail structure see a map of Philadelphia, a city of 1,950,000 inhabitants, in Malcolm J. Proudfoot, "City Retail Structure," 13 *Economic Geography* 424-8 at 425 (October, 1937).

have been substantiated by other surveys and by the observations and experience of the writer and others engaged in study of this problem.[3]



THE CENTRAL BUSINESS DISTRICT

Each city has a functional hub appropriately called the central business district.[4] In this district are concentrated the principal retail, wholesale, financial, service, amusement, and governmental activities. Here the business costs are high and competition is keen, but opportunities for profit are rich. Land is at a premium and demand for space forces building growth skyward, in large cities to 10 and 20 times ground dimensions.[5] Great crowds enter the central district in the mornings and depart at the close of the working day, followed by lesser numbers of shoppers and amusement seekers. All modes and routes of city transportation are focused to serve this striking movement of working and purchasing population. In many cities, motor coaches, suburban railroads, elevated trains, and subways furnish rapid transportation to and from distant suburbs; slower moving street-car service fills in the gaps left by these centrally oriented, spoke-like forms of transportation; whereas automobiles, though important, take a subordinate place because of restricted district parking space. The growth and importance of the central business district are in direct proportion to the growth and purchasing power of the city population which it serves.

Within the central business district are exceptional opportunities for virtually all kinds of business enterprise. The few exceptions are establishments which sell commodities or services having a strictly rural appeal, or which require large amounts of horizontal space and deal in commodities high in bulk and low in value. Even though virtually all kinds of business locate at the center, certain kinds enjoy a higher income,[6] and dominate the most desirable and most expensive building

[3]See Malcolm J. Proudfoot, *The Major Outlying Business Centers of Chicago* (Chicago: Private edition, distributed by the University of Chicago Libraries, 1938); *Location Structure of Retail Trade*, Domestic Commerce Series No. 80 and *Retail Store Problems*, Domestic Commerce Series No. 9 (Washington: Bureau of Foreign and Domestic Commerce, Department of Commerce, 1933 and 1926, respectively); William Applebaum, *The Secondary Commercial Centers of Cincinnati* (Cincinnati: University of Cincinnati, 1932); A. E. Parkins, "Profiles of the Retail Section of Nashville, Tennessee," 20 *Annals of the Association of American Geographers* 164-75 (1930); Edmund D. McGarry, *Retail Trade Areas in Buffalo*, Sup. Statistical Survey, University of Buffalo, Bureau of Business and Social Research, Vol. 7, No. 8A (April, 1932).

[4]Instances are not rare of cities having a dual development of such districts. This may occur during city growth from dual village or town nuclei, and through the migration of business enterprise as a result of building obsolescence or the requirements of specialization. Notable examples having dual districts are (or were) New York City, Buffalo and, although politically separated, within the urban areas of the various twin cities of the United States. However, for the most part, one district soon tends to dominate and sap the business functions of the other.

[5]Homer Hoyt, *One Hundred Years of Land Values in Chicago* (Chicago: University of Chicago Press, 1934), particularly pp. 327-44 inclusive.

[6]Malcolmn J. Proudfoot, "Intra-City Business Census Statistics for Philadelphia, Pennsylvania," Census of Business: 1935, Bureau of the Census, Department of Commerce (Washington, 1937). Particular note should be taken of Table 3, which among other relevant data shows the average annual sales per store to be $90,200 in the central business district in contrast to $22,300 for the city as a whole.

space (Figure II). Those desiring to initiate business of these kinds, provided high operating costs and keen competition can be survived, stand to make large profits.

In addition to these dominant kinds, there are most numerous and highly variable kinds of business with proportionally lower incomes, occupying less desirable building space in upper-story, side-street, and middle-of-the-block sites. The nature of these establishments indicates the wide range and diversity of opportunity in the central business district. Here these, for the most part, prosper in small store or office sites where lower rentals make possible adequate profits from lower incomes.

If, after a consideration of all prospects, a decision is made to initiate a business in the central district of a certain city, it is desirable to consider those conditions fundamental to the selection of a suitable building site. In so doing one basic axiom dominates all other considerations. *The most suitable business site is one accessible to the greatest number of potential customers.*

The first site condition to be considered is that of pedestrian traffic. It is often said, "other things being equal, the heavier the pedestrian traffic, the greater the volume of business." Unfortunately, other things are never equal! Mere quantity must be examined for quality in terms of a specific kind of store.[7] Evaluating quality (and each potential store manager should decide what is important) is facilitated by sorting pedestrian traffic into classes, such as men, women, adolescents, and children; superior, fair, and poor, judged by clothing; number per hour during the morning, afternoon, and evening, and by days of the week or by seasons; those evidencing purchases by parcels; and variations between corner and mid-block locations. Certain influences likewise must be evaluated, such as the release of crowds by theaters, amusement parks, schools, exhibit halls, clubs, and other crowd-gathering activities which swell pedestrian traffic but tend to place people in a non-purchasing frame of mind. Furthermore, certain conditions are to be avoided if additional pedestrians are to be stimulated to enter a business site. These are: approaches with an incline, or stores with a step up to the door; office space above the second story not furnished with elevators; cramped allotments of window display space; sunny exposures in southern cities; poorly drained or narrow sidewalks; adjoining nuisance enterprises; and all other conditions which inconvenience or displease the potential customer.

A second favorable site condition is that of proximity (less than a five-minute walking distance) to mass transportation terminals. The common tendency of residential areas to decentralize toward municipal outskirts and extreme traffic to congest in the central district detracts from the utility of the automobile and renders mass conveyance of paramount importance as the customer-transporting agent.[8] Proximity to railroad, elevated, subway, and ferry terminals is, for the most part, highly desirable for business. However, the value of individual terminals depends somewhat on the quality of the residential areas served. Finally, although proximity to a major street-car or motor-coach transfer corner does enhance the value of a specific business site, numerous transfer corners and block-to-block stopping schedules render such points of markedly less business value than the terminals of other modes of mass transportation. Ideally, a position between two terminals is most desirable. However, any business site favored by

[7] W. H. Meserole, "The Qualitative Character of Pedestrian Traffic," 2 *American Marketing Journal* 157-62 (July, 1935).

[8] Michigan State Highway Department, *Street Traffic City of Detroit, 1936-1937* (Lansing: Franklin DeKleine Co., 1937), pp. 126-45.

heavy pedestrian traffic, resulting from commuters, is likely to enjoy a high income.

A third favorable site condition is that of adjacence to other establishments engaged in the same kind of business. This condition is desirable since a shopper, not satisfied in one store, is able conveniently to satisfy his wants in an adjacent store. Furthermore, duplication of competitive offerings makes for beneficial specialization among individual business units. The group as a whole offers a higher class of service, or makes available a greater variety of commodities at lower prices. More potential customers are attracted, a higher proportion of these make purchases, and a greater number of satisfied customers makes for an accumulation of repeat business.

A final, general site condition favorable to business is that of proximity to a bank or large retail establishment, such as a department store. Banks draw large crowds of people who are either bringing money for deposit or withdrawing funds for general use. Such people may be considered to have good credit ratings, and make excellent potential customers. Likewise, near-by banks serve the flow of local credit to the individual business concerns. Department stores and other large retail establishments spend large sums for newspaper, outdoor, car-card, and radio advertising. This, and other forms of customer stimulation, attract large crowds of potential buyers to these stores, and thereby directly benefit adjacent or near-by business establishments and the central business district in general. People stimulated in these ways are likely to be purchase-minded and susceptible to the attraction of commodity and service offerings made by any visible business establishment.

THE OUTLYING BUSINESS CENTER

In the outlying business center, found in numbers from 5 to 30 or more depending on the size of the principal city, business has its second best opportunity (Figure I). In the principal cities the combined business volume of all outlying centers ranges from 1/3 to approximately that of the central business district. The larger the city, the greater the parallel decentralization of population and business enterprise, and the greater the share of business taken by the centers.[9]

The outlying center is a less concentrated satellite miniature of the central business district. Here, on a smaller scale, are retail, financial, service, and amusement activities occupying multi-storied building space. Four-, six-, and eight-story buildings equipped with elevators are clustered at the principal street-car and motor-coach transfer corners; and for several blocks in two, four, or six directions from these corners, business continues within buildings of decreased height and reduced rentals.[10]

These centers, with few exceptions, are found in the broad zone midway between the central business district and the residential fringes of each city.[11] This position shows the tendency of business enterprise to decentralize and profit by the commodity and service needs of the decentralized residential population, and at the same time avoid the ruinous competition

[9]In the case of Philadelphia, the combined volume of sales accredited to the outlying business centers equalled 19.2%, whereas that of the central business district equalled 37.4% of the total for the City. (Proudfoot, "Intra-City Business Census Statistics for Philadelphia, Pennsylvania," *op. cit.*, Tables 2, 3 and 4.) On a comparable basis as shown by analyses of the 1933 Business Census schedules, Chicago had a total of 48 centers, Philadelphia 32, and Cleveland 18.

[10]Proudfoot, *The Major Outlying Business Centers of Chicago, op. cit.* Note that on the basis of the character of street-frontage occupancy a lower limit was set for major centers and that these totaled 20, whereas based on volume of sales 48 centers were distinguished. This does not represent a conflict but different definitions. (The first half of the material here cited is likewise covered in Malcolm J. Proudfoot, "The Outlying Business Centers of Chicago," 13 *Journal of Land & Public Utility Economics* 57-70 (February, 1937).)

[11]*Ibid.*, p. 51.

FIGURE II. A GENERALIZED EVALUATION OF SITE BY LOCATION FOR KINDS OF BUSINESS*

The grade of site, proportional to front-foot rentals, which each kind of business enterprise may afford to occupy at each type of location, shown by letters:

A.....High
B.....Medium
C.....Low
X.....Site subordinate to location

Kind of Business Enterprise	Urban Business Locations						Rural Business Locations	
	Central District	Outlying Center	Principal Thoroughfare	Neighborhood Street	Isolated Cluster	Isolated Outlet	Village Cluster	Isolated Roadside Outlet
RETAIL								
1. Accessory, tire, and battery dealers	C	B	A	C		X	X	X
2. Apparel accessory stores	B	A		B			X	
3. Army and navy goods stores	C							
4. Bakeries and caterers	C	B		A	X	X	X	
5. Beer and liquor stores	C	B	C	B				
6. Bicycle shops	C		C			X		
7. Book stores	B	C		C				
8. Cafeterias	B	B		B				
9. Camera and photographic supply stores	B	B						
10. Candy and confectionery stores	B	B		B				
11. Cigar stores	A	A		B				
12. Coffee, tea, and spice stores	B	B						
13. Combination grocery and meat stores		C		A	X	X	X	
14. Custom tailors	B	B						
15. Dairy product stores		C	C	B	X	X		
16. Delicatessen stores	C	C	C	B	X	X		
17. Department stores	A	A	A			X		
18. Drug stores	A	A	B	A	X	X	X	
19. Dry goods stores	C	B		B				
20. Egg and poultry dealers		C	B	B				
21. Electrical supply stores	C	B		B				
22. Family clothing stores	C	B				X	X	
23. Fancy grocery stores	B	A		A				
24. Farm and garden supply stores				C		X		
25. Farmers produce markets			A			X		X
26. Filling stations		C	A	B		X	X	X
27. Floor covering and drapery stores	C	B						
28. Florist shops	B	C		B				
29. Fountain lunches	C	B		B				
30. Fruit and vegetable stores		C	B	B	X	X		
31. Fuel and ice dealers				C		X	X	
32. Furniture stores	B	B	B					
33. Furriers and fur shops	B	B						
34. Garages	C	C		C		X		X
35. General merchandise stores	B	A						
36. General stores								X
37. Gift, novelty and souvenir shops	B	B						
38. Grocery marts	B	B	A					
39. Grocery stores		C		A	X	X	X	
40. Hardware stores	C	C		B			X	
41. Hardware and farm implement stores							X	
42. Hay, grain, feed stores				C		X	X	
43. Heating and plumbing equipment dealers	C		B			X		
44. Household appliance stores	B	A		B				
45. Jewelry stores	A	A		B			X	
46. Kitchenware stores	C	B		B				
47. Lunch counters	C	C	C	C			X	
48. Lunch rooms	C	B	C	B	X		X	
49. Luggage and leather goods stores	B	B		C				
50. Meat markets		C		A	X		X	
51. Men's clothing stores	A	A		C				
52. Milk depots			A			X		
53. Millinery stores	B	A		C				
54. Music stores	B	B						
55. New car dealers		C	A			X	X	
56. Newspaper and magazine dealers	C	C		C			X	
57. Nut shops	C	B						
58. Office and store equipment dealers	C					X		
59. Paint, glass and wall paper stores	C	C						
60. Pawn shops	C	C						
61. Picture and picture framing stores	C	C						
62. Radio dealers	C	B		C				
63. Second-hand stores	C	C		C				
64. Shoe stores	B	A		C				
65. Tableware stores	C	B						
66. Used car dealers		C	A			X	X	X
67. Variety, 5-10-$1 stores	A	A		A			X	
68. Women's clothing stores	A	A		C				
WHOLESALE								
1. Automotive	C		A			X		
2. Amusement and sporting goods	C							
3. Beer, wines and liquors	C					X		
4. Chemicals and paints	C					X		
5. Clothing and furnishings	C					X		
6. Coal and coke						X		
7. Dry goods and specialties	C							
8. Drugs and drug specialties	C					X		
9. Electrical goods	C							
10. Farm products—consumer goods	C							
11. Farm products—raw materials	C					X		
12. Farm supplies	C							

Kind of Business Enterprise	Urban Business Locations						Rural Business Locations	
	Central District	Outlying Center	Principal Thoroughfare	Neighborhood Street	Isolated Cluster	Isolated Outlet	Village Cluster	Isolated Roadside Outlet
13. Furniture and house furnishings	C							
14. General merchandise	C							
15. Groceries (full line)	C					X		
16. Grocery specialties	C							
17. Hardware	C					X		
18. Jewelry and optical goods	C							
19. Lumber and construction materials						X		
20. Machinery, equipment and supplies	C					X		
21. Metal and metal work						X		
22. Paper and its products	C					X		
23. Plumbing and heating goods	C					X		
24. Tobacco and its products	C					X		
25. Waste materials						X		
RECREATIONAL								
1. Bowling and billiard halls	C	B	A			X		
2. Dance halls	C	C	B			X		X
3. Men's, women's and family clubs	C	C				X	X	
4. Motion picture theaters	B	B	B	B		X	X	
5. Nite clubs	C	C	B			X		X
6. Operas	B							
7. Ping-pong and table game parlors	C	C		C				
8. Shooting galleries	C	C						
9. Skating rinks	C	C	B			X		
10. Theaters	B							
FINANCIAL								
1. Banks	B	A		B			X	
2. Building and loan associations	C	B						
3. Installment finance companies	C							
4. Insurance offices	C	C						
5. Personal finance companies	C	C						
6. Security brokers and dealers	B	B						
PROFESSIONAL AND SEMI-PROFESSIONAL SERVICE								
1. Architects	C	C						
2. Building contractors	C	C				X		
3. Chiropractors	C	C		C		X	X	
4. Chiropodists	C	C		C		X		
5. Dentists	C	C		C		X	X	
6. Doctors	C	C		C		X	X	
7. Lawyers	C	C				X	X	
8. Osteopaths	C	C		C		X		
9. Public accountants	C	C						
10. Vocational schools	C	C				X		
11. "X"-Ray laboratories	C	C				X		
RESIDENTIAL SERVICE								
1. Apartment hotels	C	C				X		
2. Hotels	B	C	A			X		X
3. Rooming houses	C					X	X	X
4. Tourists hotels	C		A			X	X	X
TECHNICAL SERVICE								
1. Advertising agencies	C	C						
2. Automobile rental service	C	C						
3. Automobile repair shops		C	B	C		X	X	X
4. Barbers	C	C		B	X	X	X	
5. Beauticians	C	C		B	X	X	X	
6. Blacksmith shops						X	X	
7. Cleaners	C	C		B		X		
8. Dancing academies	C	C				X		
9. Detective agencies	C	C						
10. Duplicating service	C	C				X		
11. Electrical applicance repair shops	C					X		
12. Employment agencies	C	C						
13. Fur remodelling	C	C		C				
14. Laundries	C	C		C		X		
15. Massage and bath service	C	C						
16. Messenger service	C							
17. Parking garages	C							
18. Parking stations	C	C						
19. Photographers	C	C		B				
20. Plumbers				C		X	X	
21. Printers	C	C		C		X	X	
22. Public stenographers	C							
23. Realtors	C	C		C			X	
24. Shoe and hat repair shops	C	C		B	X		X	
25. Sign painters	C	C		C		X		
26. Suit rentals	C	C						
27. Tailors	C	C		B	X			
28. Telegraph service	B	B		B		X	X	
29. Ticket agencies	C	B						
30. Typewriter repair shops	C	C						
31. Upholstery and furniture repair shops				C		X		
32. Watch and clock repair shops	C	C		C			X	

* This generalized evaluation attempts to portray the average condition revealed by urban and rural reconnaissance during the past five years and as determined by foot-frontage analyses of double-profile maps made of over 50 linear miles of street frontage in Chicago, Illinois. See Malcolm J. Proudfoot, *The Major Outlying Business Centers of Chicago, op. cit.* Because of the caprice of human choice, the localization of business enterprise, though following general patterns, is by individual units a most unpredictable, imprescribable phenomenon.

of close proximity to the central business district. Thus, depending on the size of the city and that of each center, conditioned by available transportation, customers are drawn from a wide tributary area; a wedge-shaped area with its point midway between the center and the central business district, and its head widening indefinitely toward the suburbs.[12]

The outlying business center, although at a concentration point of city transportation,[13] differs markedly from the central business district in the general absence of rapid mass-transportation facilities and terminals. In fact, the proximity of railroad, elevated, subway, and express motor-coach transportation, invariably oriented to serve the central district, may be a severe detriment to the outlying business center. The center is favored when well served by street cars and motor coaches, and with wide streets suitable for dense automobile traffic. These low-cost and relatively slow-moving forms of mass transportation are a convenience to the near-by customers of the center, but of limited convenience between the residential fringes and the central district. Automobiles, finding ample near-by parking space, are an advantage to the center, whereas traffic congestion and the absence of parking facilities tend to exclude them from the central district. Finally, many buyers walk to the center from their residences and for this small area the center is the dominant market. Therefore, the optimum conditions for a center are: the presence of an important mass street-transportation transfer intersection; well paved feeder streets suitable for dense automobile traffic; and the proximity of densely settled residential areas peopled by high-income groups.

As indicated, the business character of the center reflects, in miniature, the conditions found in the central business district. To be sure, certain individual kinds of business enterprise found in the central district are commonly not found at the center, whereas several new kinds assume a prominent place. Again, those enterprises enjoying the highest income dominate the choicest street level or upper-story corner or adjacent building sites; whereas the remainder occupy middle-of-the-block space removed a block or more from the principal transfer corner (Figure II).[14]

When a specific outlying business center has been chosen, giving consideration to its size, tributary area, and transportational accessibility as compared to other centers, care should be used in the selection of a suitable site. For the outlying center, the problem is infinitely less complex than for the central district. The center is small, consisting, for the most part, of less than 10 blocks of business frontage. The choice of a business site is generally to be made from less than a dozen present, or prospective, vacancies. Here again the site selected should be the one accessible to the greatest number of potential customers—people with cash or credit and desiring commodities and services.

Favorable site conditions at the center are essentially similar to those of the central district. Here again pedestrian traffic should be measured as to quality as well as quantity; and all impediments to the accessibility of site should be avoided. As proximity to transportation terminals is most desirable for the central district, so for the center, a comparable role is held by the street-car and motor-coach transfer corners. The best sites are, almost without exception, the four or six principal transfer corners; and, secondarily,

[12] *Ibid.*, p. 58.
[13] *Ibid.*, pp. 52 and 55.
[14] Ibid., p. 56.

building space in the street frontage of each corner block. Of major importance, for the center, is the value of a site adjacent to a bank, department store, or other large retail enterprise exerting a strong drawing force on purchase-minded people. Finally, as explained for the central district, it is most desirable to locate in a cluster of similar business enterprises.

THE PRINCIPAL BUSINESS THOROUGHFARE

Principal business thoroughfares are found in most large cities in numbers roughly proportional to city population (Figure I). The thoroughfare, in most instances, is a non-residential segment of a vehicular and mass-transportation artery affording direct connection between outlying residential areas and the central business district. The attractive force of the central district accounts for the dense traffic on the thoroughfare, and not its large, widely spaced business establishments (Figure II). This dense traffic, however, has made possible the development of this type of business location. New and used automobile and accessory dealers, filling stations, food marts and large grocery stores, farmers' markets, department stores, motion picture theaters, and tourist hotels are among the enterprises well adapted to the business thoroughfare. These establishments profit handsomely by offering the convenience of ample curb-side parking space to customers from the passing vehicular traffic; and, in turn, low rentals for large vacant lots and building quarters make possible large-scale enterprise with low overhead cost.

After deciding upon a certain business thoroughfare, based on a knowledge of its street-traffic character and density, a specific business site may be selected from among the adequate vacant building spaces. Of paramount importance to large-scale operation is the choice of a site: (1) adjacent to a vacant lot suitable for parking purposes; and (2) so situated that, from one or more directions, the concern's outdoor signs may be seen by passing motorists. Business along the thoroughfare stands to profit in direct proportion to its advertising appeal. To the motorist, the ample parking space of the business establishment along the thoroughfare makes it highly accessible to his movements, and he, if properly stimulated, readily becomes a buyer.

THE NEIGHBORHOOD BUSINESS STREET

The neighborhood business street, as its name implies, draws customers from easy walking distances within individual neighborhoods. These streets form essentially rectangular patterns within cities (Figure I). They are rendered residentially undesirable by the passing of heavy, mass, and vehicular traffic. They are either isolated from other types of business location, or are extensions of outlying business centers. Finally, they evidence a lack of business concentration by a predominance of apartments or flats in their upper stories.

The kinds of business likely to prosper on these streets are those with a neighborhood appeal. Foremost among these are the grocery store, the meat market, the fruit and vegetable store, the small movie house, the cleaning and pressing establishment, the shoe repair shop, the doctors' and dentists' offices, and the garage. Large establishments, advertising extensively and dependent on customers drawn from a wide area, are out of place in the neighborhood business street (Figure II).

The selection of a specific site within a neighborhood business street location is of subordinate importance to the care which should be exercised in selecting the location. Since each kind of business within

any such location is almost wholly dependent upon customers from the immediate neighborhood, it is of primary importance to analyze the character of each neighborhood. It is expedient to determine, by inspection or from statistical sources, whether or not the neighborhood is: densely populated; populated by a desirable nationality or income group; or served by other neighborhood business streets.

When a desirable neighborhood business street has been selected, the question of a specific business site should be considered in the light of accessibility to the greatest number of potential customers. All possible obstructions should be avoided. Here, as in the case of the outlying business center, a mass-transportation transfer corner is most desirable. Then, in descending order of desirability come middle-of-the-block sites adjacent to such corners, corner sites which are not at transfer points, and middle-of-the-block sites removed from such corners. Finally, as a supplement to the relative advantage of each of these sites is the desirability of locating in a cluster of competitive outlets.

THE ISOLATED BUSINESS CLUSTER

The isolated business cluster, for the most part, is made up of two or more establishments which complement each other; for example, a grocery store, a drug store, a meat market, a shoe repair shop, and possibly a cleaning and pressing establishment. Such establishments, without affording each other much competition, supply the immediate commodity wants of small residential areas, restricted in extent to a short walking distance. It is a common occurrence for these store clusters to develop in sparsely populated city outskirts or within densely settled areas where an early start or a zoning ordinance made available, to business use, a scant block or a city lot (Figures I and II).

For this type of location the problem is primarily that of selecting a suitable isolated cluster, whereas selecting the best available building site is a secondary consideration. Here the businessman meets the necessity for a most critical analysis of restricted neighborhood areas. The analysis should seek to answer two primary questions: (1) Are the number of families living within an easy walking distance of the projected establishment sufficient in number and of a high enough economic level to provide an adequate business income? (2) What is the likelihood of ruinous competition from another cluster of business establishments already in operation, or the potential threat of another arising from available building or ground space?

Ordinarily, the most profitable location of this type is one situated in a high-grade residential area; or one adjacent to a university or school; and in each case favored by a zoning ordinance which will keep other establishments at a non-competitive distance. Such a location along an important street-car, motor-coach, elevated, or other mass-transportation route is likewise desirable, provided it is situated to profit by commuters making purchases en route to their homes. Finally, it is desirable to locate in a neighborhood which is increasing in population. An establishment in such a location may gain the outstanding advantage of local confidence resulting from an early start, and have the good fortune to grow with the neighborhood.

THE ISOLATED BUSINESS OUTLET

Within any city are found numerous instances of the isolated business establishment (Figure I). The usual run of these consist of the isolated, strictly neighbor-

hood grocery store, drug store, meat market, and other outlets commonly found in the isolated business cluster or neighborhood business street (Figure II). These stores draw customers from within their immediate neighborhood, and their business is on a highly personal basis. These stores fill the immediate commodity needs of near-by family groups; and they sell standard articles or dispense services duplicated throughout the city both in kind and quality. Therefore, in locating such a store it is desirable to obtain isolated sites relatively free from competition. These should be sought along residential streets, in basement, middle-of-the-block, or corner sites where there is a suitable vacancy and wherever it appears that a group of families are not only being inconveniently supplied but where it appears that this group in turn can support such a store.

The isolated business outlet is not a clear-cut type about which one may generalize. It is comprised of highly miscellaneous kinds of business with sharply contrasting site requirements. On the one extreme is the enterprise represented by the small corner grocery, drug, or similar store supplied by truck and supported by pedestrian customers. Then there are the intermediate enterprises represented by the filling station, the food specialty store with delivery service, the coal and lumber yard, and other establishments drawing customers from intercommunity areas. Finally, at the opposite extreme, is the hybrid business, such as the retail store of the mail order house, the department store, the milk distributor with house-to-house delivery to thousands of customers, or the mail order house with state- or nation-wide clientele. Attempting to prescribe the most suitable conditions, as to site or location, for business of these highly heterogeneous kinds would serve no useful purpose. Selecting an isolated location within a city, for the most part, is an individual matter depending upon the specific nature of the enterprise to be initiated. An analysis of neighborhood population may be paramount. It may be the convenience of a freight-siding or the saving gained from low-rent storage facilities. It may be a central location wtihin a specified service area, or the site may be outstanding because of favorable freight, express, and parcel post connections. Whether a single or combined condition dominates depends upon the business to be established at any given isolated location or site.

THE VILLAGE BUSINESS CLUSTER

The village or small-town business cluster represents the central business district in embryonic form (Figure I). Each compact village population group is conveniently served by its business cluster which does not decentralize until population growth creates a decentralized demand. In addition to serving the village, the cluster may serve several hundred near-by farm families with a major portion of their staples. Since the isolated position of many villages makes their business outlets the chief source of supply for a substantial proportion of their tributary population, each store is likely to carry a rather full line of essential merchandise and the business establishments as a group provide a wide range of farm, household, and personal commodity and service necessities.

For the most part, the village business cluster represents a complementary and only a mildly competitive group of enterprises. These consist of several grocery stores, a meat market, a dry goods store, a general store, a hardware store, a restaurant or lunch room, a tourist hotel, a garage, and several filling stations. In addition, professional service may be

offered by a dentist, several doctors and, depending on the nature of the village, by several lawyers (Figure II).

Here again the question of selecting a specific site is of minor significance compared to analyzing the situation of the general location. A number of relevant questions should be answered before it may be considered advisable to locate a new business enterprise in a given village. Some of the more general of these are: (1) estimate the likelihood of success for the business to be initiated by balancing the economic level, growth or decline, of the village population and that of the tributary farm population against the existence or absence of local competition; (2) make a study of road and highway connections to ascertain whether or not relocation or new construction, for example a "cut-off," is imminent which may divert customers from the village business cluster; (3) investigate the travelling time required from the village in question to and from competitive villages, towns, and cities; (4) make vehicular traffic counts, and, if possible, discover what proportion of the traffic stops within the village business cluster; and (5) analyze the source of potential customers arriving by automobile by recording license numbers within the village and obtaining owner addresses from the official state lists. Based on individual judgment, when these or other tests prove favorable, it may be advisable to initiate a business enterprise at a site within the village selected.

THE ISOLATED ROADSIDE BUSINESS OUTLET

Roadside business outlets in isolated locations are familiar objects in the American rural landscape (Figure I). Most common and time-honored among these is the general store, a descendant of the frontier trading post. The familiar statement—"We sell everything from little wooden toothpicks to heavy lumber wagons"—aptly describes this type of business. Variety is great, although selection within commodity groups is most limited. Added to the general store are a host of miscellaneous business enterprises commonly located on roadside sites isolated from other forms of business. Some of the more common kinds are filling stations, tourist cabin and filling station combinations, restaurants or sandwich shanties, amusement parks or swimming pools, night clubs, general repair garages, and farm produce markets (Figure II).

The situation with respect to locating an isolated roadside outlet, for the most part, is not complex. For the general store, a crossroad location is most desirable, but locations on principal highways are to be avoided. The general store is likely to be most favored by a location free from near-by competition and with convenient access over all-weather roads to a farm population adequate to provide for its maintenance and growth. For this type of store the two-fold danger exists of being too understocked to compete with the peddler truck and of being so situated on a paved highway that village or city competition is too acute for continued existence.

The other kinds of isolated roadside business outlets are strictly a highway phenomenon catering to, and for the most part, dependent on the patronage of the city motorist. For them the most favorable site is one with ample parking space, excellent visibility, and a location at the intersection of two or more highways carrying heavy vehicular traffic. Although ample space renders the parking problem virtually non-existent, it is desirable to improve the ground set aside for this use. If a site at a highway intersection is not available, then almost any site with excellent visibility should prove suit-

able. Good visibility is highly essential, and the highway business enterprise hidden from view on a curve is at a distinct disadvantage compared with one at the crest of a slight rise or on the flat portion of a valley. Such sites profit, for motorists have time enough to reach a decision and to stop, even when travelling at high speeds.

CONCLUSION

It would be misleading to close without indicating the manner in which the character of these various types of business location merge into each other. The character of each type depends in large measure on the size of the city or village within which it is located, and each type grows or declines with the expansion or contraction of the population it serves. The central district of a medium sized city may be similar in most respects to an outlying business center situated in a large city. The intersection of two mass-transportation routes may mark the transition in growth from a neighborhood business street or a principal business thoroughfare to an outlying business center. Isolated business outlets may increase along a traffic artery and mark its transition to a principal business thoroughfare, or such outlets may become isolated business clusters along a car line. The isolated business cluster may expand to become a neighborhood business street. The village business cluster may expand with the village to become the central business district of a city, or population decline may produce the opposite result for a central business district. Finally, the isolated roadside business outlet may form the nucleus of a village business cluster. Thus the value of a particular kind of business at a given site within a given business location remains at the mercy of population change. Decisions reached may fit for a given time, but they are subject to an indefinite future. Each businessman must be ready to relocate as basic conditions change. He should not, as so many do, become captivated by the inertia of a previous decision.

The Appraisal Docket

Cases, decisions, and other matters involving rulings and precedents affecting real estate and valuation

William Wilson, Editor
John C. Butler, Assistant Editor

Shakespeare's King Claudius was moved to say, in repentance for his murder of his brother:

> "And what's in prayer but this two-fold force,
> To be forestalled ere we come to fall,
> Or pardon'd being down? . . . . ."
> *Hamlet*, Act III, Scene 3.

And at the present writing we are sadly likening ourselves to King Claudius, with this one exception: that we lack a murder to trouble our conscience. We therefore beg of our readers whose emulation of Stanley Livingston leads them this far to provide us with our crime. Oh, we hasten to add—as if that were necessary for two staid lawyers—that we commit murders only upon ideas.

Bluntly, we ask of those of you who will to send us suggestions which you would wish to see digested and treated in these columns. Our digestion may be bad and we may perhaps be charged with mistreatment, but we shall have accomplished a twofold end: we shall be spared the worrisome selection of topics, and the Docket will be assured of an interested reader. Such an entreaty as we are making is moreover not without precedent. To the contrary, it is cognate to a standard of the legal profession: a lawyer may not furnish his own litigation; he undoubtedly can — ahem! — nurture it after it has come his way.

Since our present prayer can of necessity arise only in January, we are forced for this issue to glean for our crimes among the reported and public statements of members of the Institute.

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INCOME AS A FACTOR IN THE ASSESSMENT OF REAL ESTATE FOR TAXATION

An article in the *Chicago Tribune* of December 8, 1938, announces that Cook County (Illinois) Assessor John S. Clark has chosen J. Soule Warterfield[1] to head a committee of twenty real estate experts to assist him in the 1939 quadrennial real estate assessment. The article reads in part as follows:

> "The Committee will work with Assessor Clark's staf in setting up a new method for using the income or rental value of property as a factor in making the 1939 assessment. The income factor will be applied on all classes of property from single homes to big loop buildings, Clark said.
> ". . . . Income value of property, under Clark's plan, will be used for the first time in the 1939 quadrennial. *Warterfield said the method is being used nowhere else in the country.*"[2] (Italics, the authors'.)

Mr. Warterfield is, as a practical matter, no doubt quite correct. However, in-

[1] M.A.I.

[2] Mr. Warterfield's public action is in line with the resolution of the National Association of Real Estate Boards adopted at the New Orleans Convention in November, 1936. See article, "Our Real Estate Tax Problem," Ivan A. Thorson, *The Journal of the American Institute of Real Estate Appraisers* (Vol. V., No. 4), pp. 357-364.

come is in law a recognized factor in the determination of real estate valuation for purposes of taxation. *Somers* v. *Meriden*, 119 Conn. 5, 174 A. 184, 95 A.L.R. 434 (1934) (see exhaustive annotation at page 442). It has, we strongly suspect, been disregarded by tax assessors in their zeal to pound out a strong tax base. Incidentally, a tax *base* of maximum value affords the politician the delight of comparing *his* tax *rate* with that of others. How comparable to the half truths mouthed by some of our national messiahs! Income has moreover been de-emphasized by the courts because of the severe fluctuations in value which its usage would produce.

> "The real problem lies not so much in defining terms as in applying them; and particularly during the chaotic conditions of the last few years have the difficulties of tax assessors been enhanced, when they must, as it were, catch values which are on the wing. . . Violent fluctuations in municipal income are not desirable, and assessors in listing values may, to a certain extent, disregard the excesses of a boom as well as the despair of a depression."

Alfred J. Sweet, Inc. v. *Auburn*, 134 Me. 28, 180 A. 803, 104 A.L.R. 784 (1935) at page 787 (see exhaustive annotation at page 790).

On the other hand, courts have been prone to stress the importance in the assessment field of the factors of original or reproduction cost. *Alfred J. Sweet, Inc.* v. *Auburn, supra.* Lip service only is given to the valuation calculated upon an income basis, except where such valuation by some strangely miraculous chance exceeds reproduction or original cost. *People* v. *Chicago Union Lime Works Co.*, 361 Ill. 304, 198 N.E. 1 (1935). (Taxation of a depleted quarry; its value was established by the capitalization of net income derived from the sale of dumpage rights.); *People ex rel. Wangelin, County Collector* v. *City of St. Louis*, 367 Ill. 57, 10 N.E. 2d 369 (1937). This latter case concerned the assessment of a bridge spanning the Mississippi river between the cities of St. Louis, Missouri, and East St. Louis, Illinois. The assessed value of that part of the bridge which was determined to be in Illinois had been determined to be $1,000,000 in 1932; subsequently, tolls were charged by the city of St. Louis, Missouri, to provide finances for its poor relief. The imposition of such tolls was held to enhance the value of the bridge for purposes of taxation. The point is this: the value of the bridge was there in 1932. It had not changed in one year's time; the most that could be said was that its potentialities were but being demonstrated. A vacant Chicago Loop site, or one occupied by a "taxpayer"—if any true analogy were to carry—would correspondingly be valued not upon its potentialities, but upon its present use. But the Courts would be horrified so to hold. The shoe, you see, would then be on the other foot, and it would pinch. *Central Maine Power Co.* v. *Inhabitants of Town of Turner*, 128 Me. 486, 148 A. 799 (1930). (A flooded dam site was there assessed upon its potentialities rather than upon its present use.) There the court said:

> "This conclusion accords with the 'most profitable use' rule. It is conceded by the appellant that the 'land is taxable according to the greatest value it possesses.' This is the principle underlying the rule that, in estimating the value of land for purposes of taxation, all of its incidents should be considered and the elements of value which lead to its most profitable improvement fix the proper valuation of the land. The owner may not see fit to improve his land at all. He may put it to uses which are less profitable than others for which it is suited. But he cannot thereby lessen its valuation for the purposes of taxation and deprive the assessors of taxes of the right to assess it upon a valuation based upon its highest profitable use. The common illustration of this rule is the city lot on the principal street of a large city. The owner may permit it to remain unimproved. He may use it for a purpose or in a manner which produces little or no return but its valuation is based, not upon its present use, but upon its favorable location and worth for building purposes. 26 Ruling Case Law 365."

If this were said of the potential productiveness of persons rather than of real estate, such would be slavery!

Values on the wing, indeed! They are fortunate indeed if they get a chance to get off the ground.

Constitutionally speaking, if the method of assessment of real estate is uniform, there is no objection to its valuation computed upon the original or reproduction cost theories. The distressing fact, however, is that real estate as a class bears more than its proportionate burden of the tax load. As one writer (Dr. Fagan, of Stanford University) has well put it, taxation of real estate is not placed so much upon its ability to pay as it is upon its inability to resist.[3] But several recent cases seem to point to a change in heart. Great stress was placed upon the net income factor as a measure of value depreciation of the property of the Great Northern Railway System located in North Dakota. *Great Northern Ry.* v. *Weeks*, 297 U.S. 135 (1936). Likewise, a recent New York case demonstrates the shift of the court's favor to the income factor. *People ex rel. Lehigh Valley Ry. Co.* v. *Harris*, 6 N.Y.S. 2d 794 (1938) (Supreme Court, Special Term, Seneca County).[4] There the case concerned the assessment of the railroad's real estate in the town of Ovid, New York. The court's theorem was that the valuation of real estate ascertained by the reproduction theory is not necessarily the taxable value, but merely a maximum limitation. At page 798:

> "Replacement cost is but one of the many elements which the courts recognize as going to make up the value of property. It is very evident that, outside of any incidental loss occasioned by delay in replacement, no property is worth more than it would cost to replace it. .It follows that where replacement cost is accepted as one of the measures of the value, it merely fixes the upper limit beyond which the court will not go, but that it does not necessarily determine that the property is worth that figure. Many times it is worth much less."

[3]Thorson, *op. cit.*, p. 358.

[4]We are indebted to Mr. K. Lee Hyder, Chairman of the Editorial Board of the JOURNAL, for transmitting to us the reference to this case furnished him by Mr. Lyle H. Olson, of New York City.

ADDITURS TO VERDICTS

An extremely interesting case was decided by the Fifth Circuit Court of Appeals on November 14, 1938. *United States* v. *Kennesaw Mountain Battlefield Association* (unreported at this writing). Such involved the condemnation of property on Kennesaw Mountain for a national memorial military park. The jury returned a verdict of $9,000, apparently influenced by the admission in evidence of two tax returns purported to have been made by the condemnee wherein it valued its property at $8,750. The trial judge, declaring himself to be disappointed with the verdict, granted a new trial to the condemnee unless the United States, the condemnor, would agree to an additur of $7,000, thus raising the verdict to $16,000. This was agreed upon; later, both parties attacked the validity of the trial judge's action. The appellate court reasoned that if the practice of denying new trials conditioned upon a remittitur (a scaling down of the verdict) was proper—and such is a common practice—by way of corollary, an additur was also proper. Additurs to verdicts are, however, uncommon.

In so far as the efficacy of the tax returns as proper evidence was concerned, the court stated that since no objection had been made to their introduction in evidence, complaint may not subsequently be heard. It is the general rule that the valuation placed upon real estate by a public official for the purpose of taxation only, without participation on the part of the owner or assent by him thereto except by paying the taxes assessed, is not competent evidence on a litigated question of its value. *Kansas City & G.R. Co.* v. *Haake*, 331 Mo. 429, 53 S.W. 2d 891, 84 A.L.R. 1477 (1932) (annotated at page 1485). However, if the valuation is established by the owner of the real estate, tax returns

or assessment figures are properly admitted in evidence. *Commonwealth* v. *Combs*, 229 Ky. 627, 17 S.W. 2d 748 (1929). In the first instance, the assessment or tax return would be hearsay; in the second, it would be an admission against interest. The distinction is proper.

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THE FIELD OF THE QUALIFIED APPRAISER

We have mentioned before the emergence of appraising from its puberty into a growing science. The process is—as perhaps it should be—gradual, but unmistakable and inevitable. Even now, the qualification, both popular and legal, of an appraiser rests more upon geography than upon scientific training. But this concept does not weigh so heavily as once it did. As illustrative of the tendency to emphasize training rather than the dubious superiority of local "experience" is the recent case of *Denver Union Stock Yard Company* v. *United States* (opinion of the Supreme Court of the United States rendered May 31, 1938; unreported at this writing except in the United States Supreme Court Service, page 7033, of Commerce Clearing House). In discussing the contention of the Stock Yard Company that its property had been undervalued for rate-making purposes, the Court, with reference to the value of the real estate, said:

> "*Land Value.* The Secretary's finding depends on the appraisal and testimony of his valuation engineer. Appellant maintains that it is not supported by the evidence because the engineer was not a qualified expert witness. It concedes that, if he was competent, the valuation must be sustained. To support its point, appellant relies on the fact that the appraiser had never lived in Denver or previously appraised any land there or in that vicinity or assembled or appraised any large industrial tracts. The significance adverse to competency that might be attributed to these facts if they stood alone is negatived by others disclosed by the record. The appraiser is an experienced civil engineer; he was long engaged in land appraisal work under the Interstate Commerce Commission. He later had private practice as consulting engineer and in 1934 became principal valuation engineer of the Packers and Stockyards Division, Bureau of Animal Industry, Department of Agriculture; in that capacity he has given testimony in a number of rate proceedings. His report submitted to the Secretary discloses elaborate investigation and consideration of prices paid for land, of the Interstate Commerce Commission's appraisals of lands in the vicinity and of other facts material to the ascertainment of value of the land in question. It cannot reasonably be said that, because of his lack of earlier knowledge of local conditions, the finding was made without evidence." (Page 7035)

Probably the happiest combination the practical lawyer could wish in instances of this kind would be the testimony of an appraiser whose opinion was grounded in scientific training, augmented by the opinion of men whose opinion was grounded in local experience.

We feel moved to add that this tendency upon which we have commented is healthy and commendable. It must be accompanied, however, with an ever-increasing concept of the responsibility which it imposes. Appraisals are, and will continue to be, handicraft and not mass production.[5] We call to mind a recent case whose facts disclose that an appraisal firm had contracted to appraise all the real estate in the city of Niagara Falls, New York, for the sum of $54,188. Later, when it was discovered that there were closer to 40,000 parcels of real estate to be valued rather than 20,000 as originally supposed, an additional compensation of $7,500 was sought for the "extra" work; 40,000 parcels for $61,688—mathematically, $1.5422 per parcel. The appraisals were to be used in aid to the City Assessor. The poor taxpayers! *General Valuations Company* v. *City of Niagara Falls*, 1 N.Y.S. 2d 880 (1938), affirmed (on certain points) in 278 N.Y. 273, 15 N.E. 2d 802 (1938).

[5] Cf. Editorial, "Clearing the Way for 'Slum Clearance,'" *The Journal of the American Institute of Real Estate Appraisers*, Vol. VI, No. 3 (July, 1938), p. 204-5.

What to Read

Comments on recent surveys, books, and articles of interest to real estate appraisers

C. M. Jones, Editor — Librarian, American Institute of Real Estate Appraisers

BOOK REVIEWS

Jerrett, Herman D. THE THEORY OF REAL PROPERTY VALUATION. *Sacramento, California: Keystone Press, 1938. 311 pp.*

THE work of Mr. Jerrett on *The Theory of Real Property Valuation* is recommended to the student of valuation who has a flare for the importance of the human element in valuation procedure. Basing his theories upon the belief that appraising requires more profound thought than is being given it at the present time and that it can become a science in the true sense of scientific procedure, the author tells all appraisers in no uncertain terms that basic truths are present which the appraiser fails to call upon in making his calculations of value.

The early chapters are devoted to a lengthy discussion of land and its natural resources. He carefully develops the creation of value by defining land and explains its uses in supplying the wants of man. The economic philosophy of Mr. Jerrett is expressed in great detail and, although in a straightforward manner and with originality in its presentation, strikes at fundamental truths. To illustrate, "Thus, the land and the soil are, as nature intended, the source of man's vital wants—food, warmth, clothing, and shelter. In fact, the land has a faculty of transforming and adapting to the use of mankind an infinity of substances, which without its intervention would be of no service to man. Hence, it constitutes the sole original endowment of the human race, ... and it is the extent of this endowment which is to determine the maximum number the race can reach, and the largest periods of time through which the race can survive."

With the above as a foundation for scientific valuation procedure, we have covered natural resources, population growth, and the prediction of useful life expectancy. To work out the details Mr. Jerrett states, "No one can make a proper valuation of land, if he does not know the meaning of value . . . . Every fact must be studied, ... In short, until the subject of land valuing is thoroughly understood from a scientific standpoint, it cannot be exhibited as a regular and perfect structure."

In following through his ideas of a perfect structure the author offers formulas and graphs which are his conception of the answer to a scientific approach to appraisal problems. The productivity of the soil, agricultural returns, and improvement values are made the basis of his

approach. The splitting of rent, capital returns, profit shares, expense shares, and surplus profits are fully explained. As a defender of the capitalistic system and the profit motive in human relations, a staunch supporter is found in the author. In the distribution of the gross return he lays great stress on three divisions, namely, (1) the rent share; (2) the expense share; and (3) the profit share.

In discussing the problem of urban land valuation, the author recites at some length the growth of cities, the economic area of a city, and finally the basic unit of land value. Some reversion to orthodoxy is prevalent in this discussion as front-foot values, corner influences, and alley influences are explained by formula. The top values of urban land are uniquely approached and may receive criticism from appraisal critics. The fundamentals, however, may be difficult to attack.

The author, who is an attorney as well as a valuator, gives full sway to his legal training in his discussion of eminent domain and court testimony. The rights of personal property, its legal source in the law of the land, and the methods of taking away these rights are fully discussed in a most interesting manner. The technical and legal procedure in trying damage cases, the receipt of just compensation by the defendant, and the determination of such compensation receive full consideration in the closing chapters.

The author uses no uncertain language in discussing the "expert" witness. In this respect market value receives its full share of condemnation, and, "We may go on and on and cite many decisions of our courts as precedents in support of the market value and nonexpert testimony theory, as many other writers have done, but we can see no good reason for perpetuating precedents and false theories that are hurtful to society, ..." As a final assault, the defense of trained and experienced men is presented thus, "Land valuing is a science and a very technical one. Only persons educated and trained by experience in the work can properly give an estimate of value, ..."

In the final chapter the question of valuation as an art and a science is presented. The author is convinced that value is arrived at by factual data; hence there need be no hesitancy about applying scientific methods and following mathematical computations in arriving at valuations. To this end the author has presented his views; he arouses the reader's interest to study the methods presented and opens new avenues of thinking which will cause the reader to ask the author a few pertinent questions, especially on his theory of future predictions and the constant factors used in his formulas.

PERCY E. WAGNER, M.A.I.
Chicago, Illinois

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May, Arthur A. APPRAISERS' REPRODUCTION COSTS. *Detroit, Michigan: Author, 1938. 30 pp., $3.50.*

MAKING residential reproduction costs easy to estimate is the theme of the author in his book *Appraisers' Reproduction Costs*, which was written primarily for the use of students enrolled in a real estate valuation course.

The author develops the technique of estimating costs by the cubic foot method and sets up eighteen specific schedules of sample buildings. The actual case studies of the base-type buildings in the report were first developed by the Detroit Regional Office of the Home Owners' Loan Corporation for use in connection with its appraisal operation, and the author further expanded the subject matter.

A concise brief is written on compara-

tive, capitalization, and summation approaches. The summation approach for house valuation is then chosen as the more reliable, based upon the statement that a thing cannot be worth more than it costs to reproduce it. This approach develops the upper limit of value, and it requires the estimate of reproduction cost, new, as the first step.

The method of cost compilation and the construction breakdown or the quantity survey, the unit-in-place, and the unit-cost-per-cubic-foot methods are analyzed.

Where to obtain basic sources of information, how the "bench-mark" properties or typical cases of average buildings were determined, and restrictions on the use of the data are feature paragraphs.

The method of calculating cubic foot volume is detailed with examples and sketches of the floor plan, a house section view, and different roof types. The use of the cost curve, important in obtaining the reproduction cost, is presented with a method of perpetuating the curve, not only for Detroit, but for any city. A construction cost chart for Detroit from January, 1936, to October, 1938, is included.

Basement and foundation price schedules, followed by the eighteen average cases, complete the book. The types of the character-average houses range from the small, low-price, frame cottage to the large, high-price, brick or stone residences of four bedrooms and three baths. Garages are also scheduled. Each type has two photographs and the base price per cubic foot. Prices per cubic foot for additions and deductions are detailed for over and under base volume, for cheap and high-grade construction, and for differences in wall construction, floors, heating, wage scales, and other building items.

The book is a primer for students seeking appraisal information or for many who obtain appraisal work before receiving proper training and seasoning. It should not be used as the complete answer to how market valuation is determined. It details only one part of the summation method, reproduction costs, and does not include the important study of depreciation. How to obtain land value and its relation to the value of the building located thereon is not treated except for a statement that land value is found by comparison.

The base-price method with the breakdown of additions and deductions is what the experienced appraiser mentally uses at the time the property is inspected. Knowledge and experience guide the appraiser in these calculations. The book is a valuable check if the appraiser desires to compare his findings with that of the author. The book is an assistant for the freshman appraiser. It is a helpful viewpoint, but it might be a dangerous tool unless the freshman appraiser has developed comparison faculties as to real estate.

The essence of the book is a statement written by the author which adds the necessary qualification. "As in all the arts, the tools are not an end in themselves; they are only the means to an end. Paints and brushes do not create fine landscapes. These are the product of the technique of the artist—the sum total of his experience, his knowledge, his skill. The value of *this* technique lies in the ability of the appraiser to apply it with a skill born of accumulated knowledge and a judgment nurtured by experience."

The book has a place in your library. Use it and its schedules as only one of the many checks and balances necessary to be studied and weighed when approaching market valuation of houses.

Ben B. Beyer, M.A.I.

Cleveland, Ohio

NEW ARTICLES

HOLMES, LAWRENCE G., Secretary, National Committee on Real Estate Taxation, NAREB. "Appraising Real Estate for Tax Purposes: The Income Method."

The use of income in arriving at the taxable value of real estate does not require revolutionary legislative changes. The machinery has already been set up in five states: Alabama, Indiana, Iowa, North Carolina, and Oregon. In three other states, Utah, Wisconsin, and Maryland, assessing officials have interpreted the statutes as giving them authority to use income in computing taxable value. The use of income in arriving at the value of real property has been upheld in many court decisions. This article gives quotations from existing statutes and court citations upholding the principle. *The Journal of Land & Public Utility Economics, November, 1938, p. 452.*

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KECK, JOHN G., M.A.I., C.P.M. "Obsolescence."

A property manager and an appraiser discusses economic and functional obsolescence from the manager's viewpoint. However, we think that it will interest appraisers as well. An actual case is given to illustrate the fact that it was not physical deterioration which lowered the value of the property so much as functional and economic obsolescence. Mr. Keck advises the property manager to have a data program for the management of a property much like the appraiser has in collecting and assembling data for an actual appraisal. *The Journal of Certified Property Managers, December, 1938, p. 119.*

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LARONGE, JOSEPH, M.A.I. "Should We Get Excited about Retail Decentralization?"

We are hearing a great deal about decentralization today. Naturally, the appraiser is concerned about its effect on the 100 per cent central business area. This subject is discussed by one of Cleveland's outstanding commercial property specialists. He contends that because there are so many potential shoppers in the downtown area and as long as these people remain in the territory, the stores will also remain there. There have always been subcenter business areas, and the large chains that have established branches in outlying districts report no loss of trade in their downtown store. The opening of these stores can be called "business extension," "advertising," "bringing their merchandise closer to the consumer," etc. In Mr. Laronge's opinion, "Without reference to a strict interpretation of the meaning 'Decentralization' and assuming that it implies creation of subcenters and their growth, I am firmly convinced that its effect will not be the disintegration of 100% central areas, but the possible curtailment of their further expansion." *National Real Estate Journal, December, 1938, p. 22.*

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MARCUS, WILLIAM A., Vice President, American Trust Company, San Francisco. "A Banker Looks at FHA Mortgages."

In a banker's opinion, FHA mortgages must not only be safe and liquidable like other mortgage loans, but must also have additional attractive qualities which will offset their lower return to the mortgagees. The author believes that they now have these additional attractive qualities, and he analyzes them. The conclusion of his article is in the December 24, 1938, issue of *The Economist.* Here Mr. Marcus points out that practical bankers will not hesitate in investing in FHA-insured mortgages. The amount invested, how-

ever, depends not only on existing laws and regulations, but also on the bank's policy and its experience in the mortgage-lending field. *The Economist, December 17, 1938, p. 12.*

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PIKE, HERBERT, Iowa State College. "Soil Texture and the Appraiser."

The farm appraiser must know the texture of the soil he is appraising in order to determine its productivity. Texture refers to the size of soil particles, but has no direct relationship to color with which it is often wrongly associated. The characteristics of the different soil separates are discussed, but because the appraiser is interested in the various combinations, more discussion is given to this phase. "Textural determination by the appraiser in the field is largely a matter of skill coming through experience and correlation with soils of known texture. The feel of the soil in the hand is most important." The author goes on to explain how you can detect the various types of soil through feel and sight. Texture, however, is not the only factor to consider in determining the productivity of a soil. Some of the other guides are color, physical condition organic matter, the soil reaction, topography, erosion, drainage, and natural vegetation. *Journal of the American Society of Farm Managers and Rural Appraisers, November, 1938, p. 81.*

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REEVES, CUTHBERT E., M.A.I. "Effect of Decreasing Net Income upon Capital Value."

In the author's own words, "This study was inspired primarily by the confusion common in working out net rental capitalization, and in particular by my own uncertainty as to the effect of certain variations in the methods followed or advocated in such work." Appraisers and property owners and managers will be much interested in this careful study by a well-known appraisal consultant. The capitalization process, the comparison of net earnings, regressions of net income are all thoroughly discussed. Cases are cited and charts shown. Two small charts illustrate graphically the difference in net earnings from a property to prospective purchasers of the fee interest and of a leasehold during ten years; a third chart shows the distribution of earnings over a twenty-year period. Three tables are also included showing the effect upon capital value of decline in future net income at various rates and during various expectancies. *Skyscraper Management, December, 1938, p. 11.*

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"Building Forecast: 1939"

The Architectural Forum's forecast is based upon expert opinions rather than upon statistical information. It feels, however, that the forecast is dependable and based upon an analysis of many factors affecting the trend of building. The opinions are based upon such factors as supply and demand, funds seeking investment, FHA's mortgage insurance, trend of foreclosures, rents, building costs, labor shortage, business sentiment, government spending, etc. The prediction indicates a 20 per cent increase in total construction expenditures. Nonfarm residential building will be the driving force. It will increase 30 per cent, from $1,285,000,000 to $1,671,000,000. In the margins of the article are statements from leading statistical agencies, from nationally known economists, and from recognized leaders in the building industry from fifteen large cities coast to coast. From these opinions, the *Forum* concludes that the total building activity in the United States will be about $6,385,000,000; and, if so, 1939 will be building's best year since 1930. *The Architectural Forum, January, 1939, p. 61.*

NEW M. A. I.s

WILLIAM H. WHITCOMB, SAN FRANCISCO, CALIFORNIA.

Born, Topeka, Kansas, February, 1898; Assistant Mortgage Loan Manager, New York Life Insurance Company; active member, Seattle Real Estate Board; professional territory covers Oregon and Washington; A.B. degree from Washburn College, Topeka, Kansas, 1917; fifteen years' experience in appraising real property, including homes, apartments, stores, office buildings, hotels, and garages.

W. CARROLL WILSON, MIAMI, FLORIDA.

Born, Portland, Oregon, 1890; Property Appraiser, H.O.L.C.; Vice Chairman, Appraisal Committee, Miami Realty Board; professional territory covers southern Florida; two years' university education; Assistant Comptroller, Coral Gables Corporation, Coral Gables, Florida, 1925-28; Manager, Property Management Department, Trust Company of Florida, Miami, Florida, 1929-32; Manager, Real Estate Department, Stembler-Adams-Frazier Insurance Company Miami, Florida, 1933; thirteen years' experience in appraising real estate, including dwellings, apartments, hotels, and commercial buildings; licensed real estate broker; qualified in court as an expert on the value of real estate; experienced in residential sales and construction.

CLARENCE R. DENNIS, CHICAGO, ILLINOIS.

Born, Chicago, Illinois, September, 1892; Chief Appraiser, Baird & Warner, Inc.; active associate member, Evanston-North Shore Real Estate Board; professional territory covers Chicago and surrounding suburbs and Waukegan, Illinois; graduate, Hyde Park High School, Chicago, 1911; attended Real Estate Course, Chicago Y.M.C.A. School of Commerce, and Commercial Law and other courses, Northwestern University; eight years' experience in appraising real property, including homes, apartments, stores, office buildings, industrial property, and special purpose property; qualified in court as an expert on real estate values on numerous occasions since 1932; experienced in the general supervision and construction of residences, stores, and apartment buildings.

BENJAMIN C. TOWER, BOSTON, MASSACHUSETTS.

Born, Boston, Masachusetts, 1884; proprietor of a general real estate, mortgage, appraising, and insurance business; appraiser and Director, Bay State Mortgage Corporation; Director, Boston Real Estate Exchange; member, Appraisal Committee, Membership Committee, and Brokerage Division, Boston Real Estate Exchange; professional territory covers Boston, Boston suburbs, north and south shores of Massachusetts Bay, Buzzards Bay, and Cape Cod; graduate, Harvard College, 1905; twenty-nine years' experience in real estate work, including the valuation of estates, industrial property, apartment buildings, hotels, farms, and commercial property; qualified in court as an expert on the value of residential and commercial property since 1907; experienced in residential sales continuously since 1907.

ARTHUR A. MAY, DETROIT, MICHIGAN.

Born, Detroit, Michigan, January, 1893; 1922-1931, Vice President and General Manager, Realty Development Corporation, subdividers and developers; 1931-1933, President, Arthur A. May, Inc., general brokerage; 1934-1936, Vice President, Scratch, May and Canavan, real estate consultants and valuators; October, 1933, appointed Fee Appraiser, Home Owners' Loan Corporation; August, 1934, appointed Assistant District Appraiser; January 16, 1935, appointed State Appraiser for Michigan; December 1, 1935, appointed Regional Appraiser; professional territory at present covers the entire states of Michigan and Indiana; owner member, Detroit Real Estate Board; author of various monographs and articles on appraisal practices, also lecturer and teacher of the same; instructor in Real Estate Valuation at the Detroit Institute of Technology during the school years of 1937, 1938, and 1939; qualified in the Supreme Court of the Province of Ontario as an appraiser of real property for the purpose of fixing inheritance taxes; ten years' experience in the appraisal of real estate, including the valuation of homes, stores, farm properties, apartment buildings, and land valuations in eminent domain practice; appraisal work for such firms and individuals as Sears, Roebuck & Company, The Commonwealth Commercial State Bank, The Union Central Life Insurance Company, The Province of Ontario, Insurance Commission of the State of Ohio, and the Director of Procurement of the United States Treasury.

WARD S. VAN DEUSEN, DETROIT, MICHIGAN.

Born, Ovid, Michigan, June, 1884; Senior Partner, Van Deusen & Van Deusen, engaged in sales, appraisals, and management of real estate; Director, Detroit Real Estate Board; Secretary and Treasurer, Brokers Division, Detroit Real

Estate Board; Director, Michigan Real Estate Association; Chairman, Sales Study Course, Detroit Real Estate Board; Chairman, Membership Committee, Michigan Real Estate Association; professional territory covers Detroit and southern Michigan; author and lecturer; two years at Detroit College of Law; attended advanced appraisal course, University of Southern California, under Professor Thurston H. Ross, M.A.I., 1930; Condemnation Expert, Pennsylvania Railroad Company; fifteen years' experience in appraising real estate; licensed real estate broker in the state of Michigan; qualified in court as an expert on the value of real property; twenty-seven years' residential sales experience.

THOMAS BURTCH, KANSAS CITY, MISSOURI.

Born, Hutchinson, Kansas, 1889; Chief Underwriter, state of Kansas, Federal Housing Administration; individual member, National Association of Real Estate Boards; professional territory covers the state of Kansas; B.S. degree from Kansas University, 1910; graduate work at Nebraska and Colorado School of Mines; lecturer and author; twenty-eight years' experience in real estate appraising, including the valuation of apartments, homes, farm lands, elevators, banks, stores, mines, and other types of properties; qualified in court as an expert on the value of farms and city property, 1921 and 1937.

WARD C. GIFFORD, KANSAS CITY, MISSOURI.

Born, Kansas City, Missouri, October, 1886; President, Ward C. Gifford Realty Company; professional territory covers Kansas City, Missouri, and surrounding territory; active member, Real Estate Board of Kansas City; lecturer, author, and teacher; over fifteen years' experience in the appraisal of real property, including homes, apartments, stores, office buildings, industrial property, farms, and special purpose property; licensed real estate broker since 1920; qualified in court as an expert on the value of all types of real property; experienced in condemnation and court testimony work.

FRANCIS A. REARDON, ST. LOUIS, MISSOURI.

Born, St. Louis, Missouri, October, 1898; active member, St. Louis Real Estate Exchange; Treasurer, John J. Reardon, Inc.; professional territory covers St. Louis and St. Louis County; completed three-year course, St. Louis University, one-year course, Washington University, two-year course, St. Louis College Pharmacy, and one-year course in real estate, Jefferson College; eight and one half years' experience in the appraisal of real property, including homes, apartments, stores, farms, and industrial property; licensed real estate broker in the state of Missouri since 1930; seven years' experience in general building and construction work; twelve years' experience in residential sales.

W. B. ROMANS, LINCOLN, NEBRASKA.

Born, Dennison, Iowa, May, 1889; associated with The First Trust Company of Lincoln in sales, appraising, and property management work; member, Lincoln Real Estate Board; professional territory covers Lincoln and its environs; attended the University of Nebraska; formerly with The Harvey Rathbone Company as salesman, assistant building manager, and advertising director and with the Stuart Investment Company as manager of the Real Estate Department; experienced in the leasing and management of office buildings and residential properties; fourteen years' experience in the appraisal of real property, including the valuation of homes, apartments, stores, industrial property, and special purpose properties; licensed real estate broker; qualified in court in 1934 as an expert on the value of improved and unimproved residential properties; experienced in residential sales and in rehabilitation and remodeling work of downtown properties.

GEORGE SEYMOUR, BAYONNE, NEW JERSEY.

Born, Dublin, Ireland, December, 1892; President, Seymour Agency, Inc.; President, Key City Realty Company, Inc.; appraiser, Trustees of Certificate Holders Mechanics Trust Company; fee appraiser, Home Owners' Loan Corporation; active member and Director, Jersey City Real Estate Board; Director, Centreville Building & Loan Association; Director, Columbian Institute; professional territory covers Bayonne and Jersey City, New Jersey; attended Pembroke Technical Institute; completed Columbia University extension real estate appraising course and lecture course in real estate appraising, New York University; eighteen years' experience in appraising real estate, including homes, apartments, stores, industrial property, and special purpose property; licensed real estate broker in the state of New Jersey since adoption of license act; qualified in court as an expert on the value of vacant lots and dwellings; twenty-two years' experience in residential sales.

JOSEPH L. PITMAN, NEWARK, NEW JERSEY.

Born, Russia, 1897; Director, Monitor Building

& Loan Association; professional territory covers Essex County and northern New Jersey; active member, Newark Real Estate Board; has been active in real estate brokerage business since 1923, engaged in the selling and leasing of residential, apartment, industrial, and commercial properties; thirteen years' experience in the appraisal of real property, including the valuation of apartments, garages, stores, and residential property; licensed real estate broker in the state of New Jersey since 1924; qualified in court as an expert on the value of stores and apartments, 1935.

MILTON BROWN, PLAINFIELD, NEW JERSEY.

Born, Newark, New Jersey, February, 1898; President, Lakeview Estates; Secretary, Plainfield Real Estate Board; professional territory covers entire state of New Jersey; lecturer and author; completed Real Estate Appraisal Case-Study Course offered by the American Institute of Real Estate Appraisers at Columbia University, 1937; from 1925 to 1930 handled more than $5,000,000 of real property of all classes; from 1935 to 1938, Manager of the Real Estate and Mortgage Department, First National Bank of Plainfield, in charge of real estate sales and management, including supervision of $2,000,000 worth of real property; during 1936 to 1937, appraised and loaned on the F.H.A. mortgage plan approximately $285,000 on one-family dwellings, these mortgages averaging about $5,000 each; ten years' experience in appraising real property, including the valuation of homes, apartments, stores, office buildings, industrial property, farms, laundries, storage warehouses, gas stations, cleaning and dyeing establishments, automobile showrooms, and factories; licensed real estate broker in the state of New Jersey since 1928; qualified in court as an expert on the value of vacant land in 1928; construction experience in the building of homes and apartments, having erected over 200 homes in the past thirteen years; fifteen years' experience in residential sales.

JAMES A. GLYNN, JR., NEW YORK, NEW YORK.

Born, New York, New York, September, 1893; formerly Senior Member, National Association of Cost Accountants; Member, Accountants Society of New York; active member, Manhattan Chapter, National Association of Real Estate Boards; professional territory covers states of New York, New Jersey, Connecticut, Pennsylvania, Ohio, and Kentucky for governmental agencies, specializing generally in metropolitan New York City; twenty years' experience in the valuation of real property, including homes, apartments, and stores; served as staff appraiser for the State Mortgage Commission during the period 1935-1937, inclusive, appraising homes, apartments, stores, office buildings, industrial plants, theatres, golf courses, country clubs, and river front properties; qualified in court in the state of New York as an expert on the value of real property; experienced in building and construction; ten years' experience in residential sales.

EDMUND J. PORT, NEW YORK, NEW YORK.

Born, New York, New York, December, 1896; President and Treasurer, Port & Co., Inc.; professional territory covers New York City, Westchester County, Southampton, Long Island, and Connecticut; member, Manhattan Chapter, National Association of Real Estate Boards; twenty-five years' experience in the real estate business; started own firm under name of Stafford & Port, Inc., in 1933; after Mr. Stafford's death name of firm was changed to Port & Burke, Inc., and subsequently to Port & Co., Inc.; completed Real Estate Appraisal Case-Study Courses I and II offered by the American Institute of Real Estate Appraisers at Columbia University, 1937; attended Morris High School and Dwight Preparatory School, New York City, also special courses at Fordham University and Mechanics Institute; ten years' experience in the appraisal of real property, including homes, apartments, stores, farms, and special purpose properties; licensed real estate broker in the state of New York since 1922; qualified in court as an expert on the value of apartment houses, 1937; twenty years' experience in residential sales.

LINUS S. APPLEBY, ROCHESTER, NEW YORK.

Born, Syracuse, New York, September, 1885; Vice President and Manager, Appraisal Department, Alliance Realty Corporation of Rochester; firm holds active membership in the Real Estate Board of Rochester; professional territory covers Rochester and the western part of the state of New York; graduate, Rochester Business Institute; completed Real Estate Appraisal Case-Study Course II at Columbia University, 1937; twenty-six years' experience in real estate appraising, including homes, apartments, stores, office buildings, industrial property, farms, and special purpose properties; qualified in court as an expert on the value of all types of real estate at various times during period from 1912 to date; licensed real estate broker in the state of New York since 1922; experienced in building

construction; twenty-nine years' experience in residential sales.

E. L. MARTING, AKRON, OHIO.

Born, Ironton, Ohio, February, 1885; President, The E. L. Marting Company; active member, Akron Real Estate Board; 1937 Chairman, National Committee on Real Estate Taxation, N.A.R.E.B.; professional territory covers Akron and Summit County, Ohio; lecturer and author; B.A. and M.A. degrees from Ohio Wesleyan University, 1907; Principal, Akron West High School, 1914-1920; Teacher, Appraisal Class, University of Akron Extension Course, 1927-1928; Teacher, Appraisal Class, Akron Real Estate Board, 1934, 1935, and 1937; President, Akron City Council, 1925-1931; fifteen years' experience in appraising real estate, including the valuation of homes, apartments, stores, office buildings, industrial property, farms, and special purpose properties; licensed real estate broker; qualified in court as an expert on the value of all types of real estate; experienced in building and remodeling homes; experienced in real estate brokerage since 1920.

HARRY D. KNOWLTON, CLEVELAND, OHIO.

Born, Kent, Ohio, October, 1894; President, The Valuation Service Company; President, The New England Company; President, The Branch Investment Company; Director, The Neil House Hotel Company; Director, The Coventry Leasehold Company; Director, The Vcela Building & Loan Association; President, Cleveland Real Estate Board, 1938; Trustee, Apartment House Owners Association; member, Board of Governors, Ohio Real Estate Association; professional territory covers all territory in which The Guardian Trust Company has a financial interest; lecturer and author; graduate as Municipal Engineer, International Correspondence Schools, 1921; Civil Engineer, City of Akron, Bureau of Water Works Improvement, 1915-1922; Contractor, Vice President, General Manager, The Alger-Knowlton Company, 1922-1928; member, Sales Department, Van Sweringen Company, 1928-1933; real estate brokerage office at Shaker Square under name of Knowlton and Howe, 1933; President, The Valuation Service Company since 1934; ten years experience in appraising real property, including the valuation of homes, business property, apartments, and special purpose property; licensed real estate broker in the state of Ohio since 1936; six years' experience in apartment, residential, and church construction; ten years' experience in residential sales.

ARTHUR C. CALLAN, PORTLAND, OREGON.

Born, Omaha, Nebraska, February, 1876; member, Portland Realty Board; professional territory covers Oregon, Seattle, Washington, and northern California; member, Incorporated Society of Auctioneers and Landed Property Agents, London, England; experienced in real estate appraising since 1913, including the valuation of homes, apartments, stores, office buildings, industrial property, farms, and various types of special purpose properties; qualified in court as an expert on the value of various types of real property; residential sales experience since 1914.

MERLE G. CAMPBELL, PORTLAND, OREGON.

Born, Pomeroy, Washington, November, 1887; member of firm, Campbell, Smith and Goodman, Inc.; Director, Portland Realty Board; member, Appraisal Committee, Portland Realty Board; member, Portland Executive Association; member, Oregon State Bar Association; professional territory covers Oregon and Washington; L.L.B. degree, University of Michigan, 1911; appraised for Reconstruction Finance Corporation, Home Owners' Loan Corporation, and the Home Loan Bank, also various banks and trust companies, financial institutions, courts, individuals, and industrial corporations; twenty years' experience in appraising real property, including homes, apartments, stores, office buildings, industrial property, farms, and special purpose properties; licensed real estate broker in the state of Oregon since 1912; qualified in court as an expert on the value of all types of property; experienced in residential sales since 1912.

LEROY D. DRAPER, PORTLAND, OREGON.

Born, Portland, Oregon, October, 1907; Vice President, Wakefield-Fries & Woodward; Vice President, Avondale Construction Company; Secretary-Treasurer, Ruddwood, Inc.; Vice President, Donald Woodward, Inc.; member, Board of Investment, Washington Mutual Savings Bank of Seattle, Washington; active member, Portland Realty Board; professional territory covers the state of Oregon and southwestern Washington; B.A. degree, University of Oregon, 1928, majoring in Accounting; special courses in mathematics of finance, real estate, and insurance; district representative for three years, Washington Mutual Savings Bank, for mortgage investment purposes; eight years' experience in real estate appraising, including the valuation of homes, apartments, stores, office buildings, industrial property, and special purpose properties; licensed real estate broker in the state of Oregon since

1930; experienced in the construction of residential and commercial buildings; experienced in residential sales.

JAMES R. HAIGHT, PORTLAND, OREGON.

Born, Burlington, Kansas, December, 1885; President, Consolidated, Inc.; President, Far West Realty Company; President, Haight Realty Company; active member, Portland Realty Board; professional territory covers Oregon; attended Wentworth Military School and Business College; completed course in Business Administration, Alexander Hamilton Institute; President of a bank; Vice President, Portland Realty Board; fifteen years' experience in real estate appraising including the valuation of vacant property, business property, hotels, and apartments; licensed real estate broker in the state of Oregon; qualified in court as an expert on the value of various types of property; experienced in the construction of homes, apartments, and store properties; residential sales experience for twelve years.

HENRY EDWARD REED, PORTLAND, OREGON.

Born, Brooklyn, New York, September, 1866; Past President, Portland Realty Board; Chairman, Ethics Committee; Past President, Oregon Association of County Assessors; Fellow of Incorporated Society of Auctioneers and Landed Property Agents, London, England; professional territory covers Multnomah, Clackamas, Clatsop, Columbia, Washington, Marion, Hood River, and Wasco Counties in Oregon and Clarke and Skamania Counties in Washington; author, lecturer, and teacher; Real Estate Editor of the *Portland Daily News*, 1883-1887; Real Estate Editor of the *Morning Oregonian of Portland*, 1887-1892; editorial writer on economic subjects for the *Oregonian*, 1896-1902; assessor of Multnomah County, Oregon, 1913-1921; twenty-six consecutive years in appraising real property, including eight years as county assessor; appraised all types of real property found in metropolitan areas for numerous insurance companies, banks, trust companies, and private clients; qualified in court as an expert on the value of real property; licensed real estate broker in the state of Oregon since 1924.

NAT C. SOULE, PORTLAND, OREGON.

Born, Edina, Missouri, 1884; Secretary-Treasurer, Staver, Soule & Company; active member, Portland Realty Board; Chairman, Appraisal Committee, Portland Realty Board; professional territory covers the state of Oregon and the southwestern portion of Washington; attended real estate class, University of Oregon Extension Services; Chief Clerk to General Manager, Union Pacific Railroad, 1909-1918; Office Manager, Standifer Shipbuilding Corporation, 1918-1920; Secretary, Standifer Shipbuilding Corporation, 1920-1922; Secretary-Treasurer, Ross-Soule Company, 1923-1929; Secretary-Treasurer, Staver, Soule & Company, 1929 to date; fifteen years' experience appraising real estate, including the valuation of all types of real property typically found in metropolitan areas; lecturer and teacher; licensed real estate broker in the state of Oregon since 1923; qualified in court as an expert on the value of real property; appraised for banks, trust companies, State Highway Commission, building and loan associations, Reconstruction Finance Corporation, industrial corporations, State Treasurer, and many private clients.

A. G. TEEPE, PORTLAND, OREGON.

Born, Anderson, Indiana, May, 1882; owner and manager, A. G. Teepe Company; member, Portland Realty Board; professional territory covers metropolitan Portland; twenty years' experience in appraising real estate, including the valuation of business and residential properties; served as a member of the Appraisal Committee, Portland Realty Board, for many years; appraised approximately fifteen hundred homes for Home Owners' Loan Corporation; licensed real estate broker; qualified in court as an expert on real estate values; twenty years' experience in residential sales.

DONALD L. WOODWARD, PORTLAND, OREGON.

Born, Portland, Oregon, March, 1901; President, Wakefield-Fries & Woodward; President, Avondale Construction Company; President, Donald Woodward, Inc.; Vice President, Ruddwood, Inc.; member, Board of Investment, Washington Mutual Savings Bank; member, City Planning Commission of Portland; Vice President, Portland Realty Board; member, American Society of Planning Officials; professional territory covers Oregon and southwestern Washington; lecturer; B.A. degree, University of Oregon, 1925, majoring in journalism; completed numerous courses in real estate; twelve years' experience in appraising real property, including homes, apartments, stores, office buildings, industrial property, farms, and special purpose properties; licensed real estate broker in the state of Oregon since 1927; qualified in court as an expert on the value of residential property; appraised for numerous financial institutions, insurance companies, and private clients; experienced in building construction; thirteen years' experience in residential sales.

MEREDITH H. JAMES, HOUSTON, TEXAS.

Born, Byran, Texas, July, 1890; manager, Real Estate Department, Guardian Trust Company; President, Real Homes Building Company; member, Board of Directors, Realty Factors of America; President, Houston National Home Show; instructor in Appraisal Courses for Houston Chapter of the American Savings & Building & Loan Associations in 1935-36; instructor in real estate appraising at Houston University, 1935; President, Houston Real Estate Board, 1934 and 1935, and member, Board of Directors, from 1933 to 1938, inclusive; member, Board of Directors, Texas Real Estate Association for several years; Chairman, Standing Appraisal Committee, Houston Real Estate Board, 1937; professional territory covers southeast Texas; B.A. degree from Texas Agricultural and Mechanical College; engaged in the appraisal of real estate for twenty years; experience includes the valuation of homes, apartments, stores, office buildings, industrial property, farms, and special purpose properties; experienced in development and construction as well as brokerage and property management; qualified in court as an expert on the value of various classes of real estate.

E. A. WHEELER, BELLINGHAM, WASHINGTON.

Born, Howard Lake, Minnesota, November, 1887; Secretary-Treasurer, Morgan Wheeler and Company; Vice President, Squalicum Land Company; Vice President, Meridian Land Company; Fee Appraiser, Home Owners' Loan Corporation; Fee Appraiser, Federal Housing Administration; stockholder in Bellingham Abstract & Title Company; Secretary-Treasurer, Bellingham Real Estate Board; Congressional District Representative, Washington Association of Real Estate Boards; member, State License Law Committee; Chairman, Appraisal Committee, Bellingham Real Estate Board; professional territory covers the state of Washington; high school graduate and one year at the University of Washington; one year at the University of Minnesota; courses in Wilson Business College, Bellingham, Washington; fifteen years' experience in appraising real estate, including the valuation of homes, apartments, stores, office buildings, and vacant land; licensed real estate broker in the state of Washington; qualified in court as an expert on the value of business and residential property, 1934, 1935, and 1936; twenty years' experience in residential sales.

LLOYD P. HAYWORTH, SEATTLE, WASHINGTON.

Born, Central City, Nebraska, January, 1893; Northwest Field Representative, Metropolitan Life Insurance Company; associate member, Seattle Real Estate Board; professional territory covers the area from Denver, Colorado, west to the Pacific Coast except the state of California; high school education, Billings, Montana; employed in appraisal work from 1916 to 1925 by Hypotheekbank, Spokane, Washington; 1926 to 1932 with Seattle Trust Company; 1932 to present time with Metropolitan Life Insurance Company; engaged in real estate selling during 1925 and 1926; twelve years' experience in the appraisal of real property exclusive of farm appraising; experience includes valuation of homes, apartments, stores, and business properties.

ARNOLD P. VAN LOGHEM, MILWAUKEE, WISCONSIN.

Born, White, South Dakota, September, 1887; Appraisal Representative, Jos. Schlitz Brewing Company; Secretary and Treasurer, DeVan's Realty Corporation; associate member, Milwaukee Real Estate Board; professional territory covers Milwaukee and other cities in the United States where Jos. Schlitz Brewing Company owns property; lecturer, teacher, and author; graduate, College of Law, Marquette University, 1920; employed by The American Appraisal Company, 1905-1916 and 1923-1926, as architectural and land appraiser; Tax Assessor for the city of Milwaukee in downtown district, 1916-1922 and 1926-1934; twenty-five years' experience in the appraising of real property, including the valuation of all types of real estate typically found in metropolitan areas; qualified in court as an expert on the appraisal of all types of real estate; two years' experience in residential sales.

VICTOR E. JOHNSON, RACINE, WISCONSIN.

Born, Renville, Minnesota, 1902; Partner, Johnson & Miller; Real Estate Manager, First National Bank and Trust Company of Racine; Secretary, W. H. Miller Company; member, Racine Real Estate Board; professional territory covers Racine County, Wisconsin; lecturer; graduate, United States Naval Academy, 1925; completed Real Estate Appraisal Case-Study Courses I and II offered by the American Institute of Real Estate Appraisers at The University of Chicago, 1938; eight years' experience in appraising real estate, including homes, apartments, stores, industrial property, farms, and special purpose property; qualified in court as an expert on the value of all types of properties; experienced in construction work and in residential sales.

1939 OFFICERS OF AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

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203 Bank of Galesburg Bldg., Galesburg, Illinois

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Charles B. Shattuck.....Southwest Region
2510 S. Vermont Avenue, Los Angeles, Calif.

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Maurice R. Massey.....Central Atlantic Region
S.E. Corner 13th and Green Streets,
Philadelphia, Pennsylvania

William A. Eastman.....Northwest Region
414 University Street, Seattle, Washington

Reginald W. Patton.....South Central Region
621 Travis Building, San Antonio, Texas

John B. Green.....Southeast Region
11 Fourth Street, N., St. Petersburg, Florida

Lewis C. Sholes.....North Central Region
Care of County Assessor, Court House,
Omaha, Nebraska

Herbert U. Nelson.....Secretary
22 West Monroe Street, Chicago, Illinois

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319 South Fifth Street, Springfield, Illinois

Harry Grant Atkinson.....Director of Activities
22 West Monroe Street, Chicago, Illinois

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Term Expiring December 31, 1941

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George W. Drennan, Detroit, Michigan
Newton C. Farr, Chicago, Illinois
Ralph V. Field, Galesburg, Illinois
J. Burrows Johnson, New Orleans, Louisiana
Stanley C. Hanks, Madison, Wisconsin
Maurice R. Massey, Philadelphia, Pennsylvania
Frank M. McCurdy, Brooklyn, New York
George L. Schmutz, Los Angeles, California

Term Expiring December 31, 1940

Ralph D. Baker, Camden, New Jersey
William H. Ballard, Boston, Massachusetts
William W. Butts, St. Louis, Missouri
William A. Eastman, Seattle, Washington
Hill Ferguson, Birmingham, Alabama
Arthur C. Houghton, Washington, D. C.
David Neiswanger, Topeka, Kansas
Reginald W. Patton, San Antonio, Texas
Charles B. Shattuck, Los Angeles, California

Term Expiring December 31, 1939

Frederick M. Babcock, Washington, D. C.
John B. Green, St. Petersburg, Florida
John R. Hoyt, New York, New York
Edward J. Maier, Newark, New Jersey
Frank McLaughlin, Toronto, Ontario
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Morton G. Thalhimer, Richmond, Virginia
H. O. Walther, Chicago, Illinois

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Philip W. Kniskern, Philadelphia, Pennsylvania
(Term Expiring December 31, 1939)

Joseph B. Hall, Cleveland, Ohio
(Term Expiring December 31, 1940)

Harry E. Gilbert, Baltimore, Maryland
(Term Expiring December 31, 1940)

Maurice F. Reidy, Worcester, Massachusetts
(Term Expiring December 31, 1941)

E. L. Ostendorf, Cleveland, Ohio
(Term Expiring December 31, 1942)

K. Lee Hyder, Milwaukee, Wisconsin
(Term Expiring December 31, 1943)

Representing Board of Directors, N.A.R.E.B.

(To be appointed.)

1939 OFFICERS OF LOCAL CHAPTERS

New Jersey Chapter Number 1

(No election reported.)

Florida Chapter Number 2

President—Walter D. Shelly, 414 Greenleaf Building, Jacksonville
Vice President—Harold V. Condict, Box 1052, Orlando
Secretary—J. C. Stewart, 112 North Orange Avenue, Orlando
Treasurer—Frank R. Jewett, P. O. Box Q, Vero Beach

Ohio Chapter Number 3

President—Albert J. Mayer, 1515 First National Bank Building, Cincinnati
Vice President—Victor J. Free, P. O. Box 5876, Cleveland
Secretary—Edmund T. Collins, 708 Jefferson Avenue, Toledo
Treasurer—A. R. Ritzman, 1099 South Main Street, Akron

New York Metropolitan District Chapter Number 4

President—George H. Gray, 310 Ashland Place, Brooklyn
Vice President—S. Edwin Kazdin, 70 Pine Street, New York City
Vice President—Frank D. Hall, 393 Seventh Avenue, New York City
Vice President—Stephen L. Angell, 30 East Parkway, Scarsdale
Secretary—Charles J. Pladwell, 522 Fifth Avenue, New York City
Treasurer—Edward C. Heald, 20 South Broadway, Yonkers

Southern California Chapter Number 5

President—Thomas Francis Mason, Box 122, Wilmington
Vice President—John W. Salmon, 2912 Brighton Avenue, Los Angeles
Secretary-Treasurer—Arthur L. Layden, 437 North Windsor Boulevard, Los Angeles

Illinois Chapter Number 6

(No election reported.)

New England Chapter Number 7

President—John C. Kiley, 45 Bromfield Street, Boston, Mass.
Vice President—George B. Horan, 151 Court Street, New Haven, Conn.
Secretary-Treasurer—Robert S. Wayland, 10 State Street, Boston, Mass.

Washington State Chapter Number 8

President—Charles P. Burnett, 14410 Third St., N.W., Seattle
Vice President—Ben J. Smith, 1222 Second Avenue, Seattle
Secretary-Treasurer—Cecil S. Van Voris, 1817 Exchange Building, Seattle

Philadelphia Chapter Number 9

President—Robert J. Nash, 1214 Locust Street, Philadelphia
Vice President—Boyd T. Barnard, Lincoln-Liberty Building, Philadelphia
Vice President—Maurice R. Massey, S. E. Corner 13th and Green Streets, Philadelphia
Secretary—S. Craig Kane, Jr., Land Title Building, Philadelphia
Treasurer—C. Harry Johnson, Packard Building, Philadelphia

Michigan Chapter Number 10

President—George C. Sexauer, 2150 Buhl Building, Detroit
Vice President—Harry J. Fuller, The Michigan Trust Company, Grand Rapids
Secretary-Treasurer—Albert D. MacRae, Union Guardian Building, Detroit

Northern California Chapter Number 11

President—Edward C. Dee, 168 Sutter Street, San Francisco
First Vice President—Mark Cheesman, 2964 Govan Way, Sacramento
Second Vice President—William B. Kyle, 4514 East 14th Street, Oakland
Secretary—F. Burt Hulting, 111 Sutter Street, San Francisco
Treasurer—Edwin L. Lunstedt, 80 Post Street, San Francisco

St. Louis Chapter Number 12

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Vice President—Joseph W. Hannauer, 811 Chestnut Street, St. Louis, Mo.
Secretary-Treasurer—Monroe H. Rodemyer, 109 North Eighth Street, St. Louis, Mo.
Recording Secretary—Clarence C. Lang, 100 Wainwright Building, St. Louis, Mo.

Western Pennsylvania Chapter Number 13

President—James W. Cree, Jr., 211 Fourth Avenue, Pittsburgh
Vice President—E. Herbert Gilg, 6605 S. Ridgeville Street, Pittsburgh
Executive Secretary—Richard H. Frey, William Penn Hotel, Pittsburgh
Treasurer—Fred J. Hettling, 440 Fourth Avenue, Pittsburgh

COMMITTEES

STANDING COMMITTEES

(See pages 93 to 98, "Roster of Members," for addresses.)

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Arthur B. Hall, Chicago, Ill.
William MacRossie, Greenwich, Conn.
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K. Lee Hyder, Milwaukee, Wis.
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E. L. Ostendorf, Cleveland, O.
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Maurice F. Reidy, Worcester, Mass.
Charles B. Shattuck, Los Angeles, Calif.
Lewis C. Sholes, Omaha, Nebr.

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Paul E. Stark, Madison, Wis.

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J. Alvin Register, Jacksonville, Fla.
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Ivan A. Thorson, Los Angeles, Calif.
H. O. Walther, Chicago, Ill.

ROSTER OF MEMBERS

(The figures in parentheses following the names indicate the Certificate Numbers issued and the order of election.)

ALABAMA

Birmingham

John D. Chichester (228)..... 708 Jackson Bldg.
Frank B. Clark (261).....408 N. 21st St.
Hill Ferguson (242).....221 N. 21st St.
Harold M. Henderson (215).....2115 First Ave.

ARIZONA

Phoenix

Leonard M. Cowley (523).....320 Professional Bldg.

ARKANSAS

Little Rock

Lawrence Witherspoon (531).....Box 1031

CALIFORNIA

Eagle Rock

Cloice D. Carll (410).....5376 Vincent Ave.

Glendale

Peter Hanson (11).....221 Arden Ave.

Long Beach

J. Mortimer Clark (50).....
.....Apt. 611, The St. Regis, 1030 E. Ocean Ave.
J. C. Hoffman (71).....307 F. & M. Bank Bldg.
A. G. Maspero (51).....409 Security Bldg.
T. F. Merrick (27).....Heartwell Bldg.

Los Angeles

Raymond F. Ahern (424).....1939 N. Hobart Blvd.
George H. Coffin, Jr. (216)...408 Hollywood Security Bldg.
Ayers J. duBois (107).....7079 Hollywood Blvd.
C. Dean Glover (67).....Rm. 205, 6636 Hollywood Blvd.
W. G. Harris (430).....639 S. Spring St.
Arthur L. Layden (104).....437 N. Windsor Blvd.
Nathan Libott (84).....6253 Hollywood Blvd.
Stanley L. McMichael (25)..6335 Yucca at Ivar, Hollywood
Norman B. Plummer (447).....9037 W. Adams St.
W. L. Poynter (651).....231 R. A. Rowan Bldg.
Thurston H. Ross (427).....3465 Knollcrest Ave.
John W. Salmon (208).....2912 Brighton Ave.
D. D. Sayer, Jr. (278).....4100 E. Ninth St.
George L. Schmutz (192).....901 Westbourne Dr.
Charles B. Shattuck (110).....2510 S. Vermont Ave.
Ivan A. Thorson (199).....500 Corporation Bldg.
Fred E. Vincent (212).....3440 Winslow Dr.
John A. Westrom (586).....2148 W. 83rd St.
Richard C. Willis (321).....446 S. Van Ness St.

Oakland

Z. E. Bells (587).....1736 Franklin St.
F. D. Courneen (588).....1515 Financial Center Bldg.
Walter N. Gabriel (589).....1447 Franklin St.
W. S. Guilford (46).Athens Athletic Club, 12th & Clay Sts.
Charles G. Gwynn (590).....420 15th St.
Harold W. Jewett (527).....1819 Franklin St.
Ralph A. Knapp (591).....373 17th St.
William Baillie Kyle (592).....4514 E. 14th St.
James G. Stafford (54).....5820 Presley Way

Pasadena

Louis M. Pratt (411).....164 N. Hudson Ave.

Sacramento

Mark Cheesman (189).....2964 Govan Way
A. J. Delano (126).....809 J St.
Thomas G. Mapel (367).....1010 Eighth St.

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Lottie L. Crawford (568).....923 Seventh Ave.
Victor R. Lundy (532).....923 Seventh Ave.

San Francisco

Harold K. Crane (628).....155 Montgomery St.
Edward C. Dee (593).....168 Sutter St.
M. L. Friedlander (594).....168 Sutter St.
F. Burt Hulting (595).....235 Montgomery St.
Edwin Elwood Lunstedt (596).....80 Post St.
Dwight L. Merriman (597).....2901 Russ Bldg.
George I. Noyes (295).....821 Market St.
Fred E. Palmer (629).....41 Sutter St.
Clayton B. Turner (630).....315 Montgomery St.
Edwin G. Wendland (342).....6626 Fulton St.
William H. Whitcomb (668).....1 Montgomery St.
J. Arthur Younger (311).....654 Market St.

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Frank C. Wood, Jr. (326).....420 Segovia Ave.

South Gate

Louis R. Ardouin (205).....2931 Willow Place

Wilmington

Thomas Francis Mason (151).....Box 122

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Denver

Arthur D. Wall (519).....813 Majestic Bldg.

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Darien

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Forestville

Thomas N. Ryan (554).....Pleasant Ave.

Greenwich

William MacRossie (598).....90 W. Putnam Ave.

Hartford

John A. Caulkins (631).....327 Trumbull St.
Joseph P. Kennedy (24).....720 Main St.
Aubrey Maddock (507).....50 State St.
H. Martin Tenney (534).....140 Garden St.

New Britain

William G. Dunn (535).....272 Main St.

New Haven

George B. Horan (275).....151 Court St.
Wm. M. Hotchkiss (436).....205 Church St.
Charles T. Lincoln (265).....746 Chapel St.

Stamford

Patrick Henry Clark (599).....322 Main St.
Richard W. Fitch (231).....292 Main St.

Waterbury

John M. Hutchinson (500).....195 N. Main St.

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A. C. Houghton (72).....909 15th St., N. W.
F. Elliot Middleton (280).....205 Investment Bldg.
Charles H. Tompkins (337).....1630 Connecticut Ave.
Curtis Walker (196).....Tower Bldg.

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J. W. Graham (83).....F.H.A.
John E. McGovern (316).....F.H.A.
Isidoro Quintana (78).....F.H.A.
John J. Savage (536).....Room 626, F.H.A. Bldg.
Jesse L. Winebrinier (600).....Room 622, F.H.A. Bldg.

FLORIDA

Fort Myers
Harry J. Wood (187).....1112 First St.

Jacksonville
V. M. Covington (48).....1316 Graham Bldg.
Louis R. Fendig (44).....23 Buckman Bldg.
J. Alvin Register (4).....114 Graham Bldg.
Bainbridge Richardson (59).....117 W. Forsyth St.
Walter D. Shelly (217).....16 Laura St.
L. K. Tucker, Jr. (150).....319 W. Forsyth St.

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Ernest Stephen Allsopp (517).....P. O. Box 911
John L. Wright (243).....117 S. Tennessee Ave.

Miami
Hollis Bush (98).....P. O. Box 1030
Kenneth S. Keyes (115).....19 W. Flagler St.
Adrian McCune (74).....1215 Security Bldg.
D. Earl Wilson (80).....1219 Security Bldg.
W. Carroll Wilson (685).....204 First Federal Bldg.

Orlando
George F. Brass (160).....Box 2014
Harold V. Condict (161).....Box 1052
C. W. Rex (42).....Box 293
J. C. Stewart (166).....112 N. Orange Ave.

St. Petersburg
John B. Green (308).....11 Fourth St., N.

Sarasota
Fred L. Palmer (127).....482 Main St.

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Charles P. Glover (139).....502 Citrus Exchange Bldg.
L. F. Pallardy (632).....718 Stovall Office Bldg.

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Frank R. Jewett (143).....P. O. Box Q

West Palm Beach
Frank J. Anderson (223).....611 Harvey Bldg.

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Leonard C. Smith (440).....100 E. Park Ave., S.

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Robert R. Otis (256).....15 Auburn Ave.
Geo. P. Williams (387).....Regional Office, H.O.L.C.

TERRITORY OF HAWAII

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Stanley Livingston (644).....89 S. King St.
Charles J. Pietsch (417).....927 Fort St.

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Graham Aldis (365).....53 W. Jackson Blvd.
Morris B. Ashton (585).....135 S. La Salle St.
Louis B. Beardslee (405).....100 N. La Salle St.
George Becker (518).....11 S. LaSalle St.
Kenneth Calhoun Brown (210).....110 S. Dearborn St.
O. P. Curran, Jr. (569).....4545 Broadway
Harry S. Cutmore (194).....1411 First Nat. Bk. Bldg.
Clarence R. Dennis (664).....7 S. Dearborn St.
Leonard Downie (296).....32 W. Randolph St.
Dominick Dunn (370).....1330 Morse Ave.
Newton C. Farr (400).....140 S. Dearborn St.
Fred F. Gardner (530).....134 S. LaSalle St.
Harry Goldstine (350).....134 N. LaSalle St.
Arthur B. Hall (403).....407 S. Dearborn St.
John P. Hooker (52).....140 S. Dearborn St.
A. K. Hornof (173).....1411 First Nat. Bk. Bldg.
Ward T. Huston (209).....110 S. Dearborn St.
Isaac Keim (324).....2526 S. Wabash Ave.
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Walter R. Kuehnle (124).....140 S. Dearborn St.
J. Alton Lauren (442).....22 W. Monroe St.
Mark Levy (9).....22 W. Monroe St.
Paul C. Loeber (399).....111 W. Washington St.
Ernest H. Lyons (195).....120 S. LaSalle St.
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Francis E. Manierre (402).....5 S. Wabash Ave.
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Lester W. Porter (407).....231 S. LaSalle St.
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Stanley Roe (624).....22 W. Monroe St.
Gilbert H. Scribner (401).....First Nat. Bk. Bldg.
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H. O. Walther (363).....130 S. LaSalle St.
J. Soule Warterfield (120).....8 S. Dearborn St.
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David Z. Field (646).....914 Ridge St.

Waukegan
Leo Dailey (388).....217 Washington St.
Oscar Soderquist (125).....22 Maple Ave.

INDIANA

East Chicago
Leonard C. Smith (440).....4534 Indianapolis Blvd.

Fort Wayne
Claude L. Baker (129).....R. F. D., No. 2

Hammond
George N. Becker (245).....5245 Ann Ave.
Samuel C. Ennis (203).....First Trust Bldg.

Indianapolis
George A. Kuhn (35).....706 Guaranty Bldg.
Frank B. McKibbin (96).....556 Consolidated Bldg.
John W. Roberts (448).....428 Illinois Bldg.

South Bend
Richard A. Muessel (537).....205 Income Bldg.

IOWA

Cedar Rapids
John J. Wagner (266).....408 American Trust Bldg.

Des Moines
Arthur S. Kirk (188).....900 Grand Ave.

Sioux City
Willard L. Frost (21).....Security Bank Bldg.

KANSAS

Hutchinson
J. C. McNaghten (116).....201 First Nat. Bk. Bldg.

Topeka
Harold Cone (602).....1620 W. 15th St.
David Neiswanger (426).....115 W. Sixth Ave.
Ralph D. Nixon (555).....3012 Somers Ct.

KENTUCKY

Louisville
I. Sidney Jenkins (334).....Care of Louisville Tr. Co.
Paul F. Semonin, Sr. (359).....321 Starks Bldg.

LOUISIANA

New Orleans
Max J. Derbes (560).....823 Perdido St.
E. Holland Johnson (558).....811 Perdido St.
J. Burrows Johnson (559).....339 Carondelet St.

Shreveport
T. S. Neal (224).....330 Ricou-Brewster Bldg.
R. S. Whitten (351).....210 Milam St.

MARYLAND

Baltimore
Oregon Milton Dennis (132)....211 New Amsterdam Bldg.
W. E. Ferguson (47).....100 E. Pleasant St.
Harry E. Gilbert (18).....2 E. Lexington St.
Albert C. Hofrichter (162).....2 E. Lexington St.
Harry U. Riepe, Jr. (570).....28 E. Fayette St.
Chas. H. Steffey (88).....336 N. Charles St.
Carroll Wright (314).....Baltimore Trust Bldg.

MASSACHUSETTS

Boston
W. H. Ballard (41).....45 Milk St.
Philip E. Bennett (603).....40 Water St.
Arthur B. Brooks (509).....40 Central St.
Edwin Deering Brooks (510).....18 Tremont St.
Edward F. Cassell (122).....18 Tremont St.
Walter Channing (571).....50 Congress St.
George L. DeBlois (505).....11 Pemberton Sq.
Norman W. Kenny (10).....82 Devonshire St.
John C. Kiley (397).....45 Bromfield St.
Arthur N. Maddison (504).....11 Pemberton Sq.
William F. Morrissey (627).....303 City Hall
Robert C. Nordblom (336).....18 Oliver St.
George S. Parker (502).....87 Milk St.
Stephen W. Sleeper (508).....31 Milk St.
Benjamin C. Tower (687).....87 Milk St.
Robert S. Wayland (506).....10 State St.
Parker Webb (538).....24 Milk St.
Richard S. Willis (652).....87 Milk St.

Brockton
Charles H. McKenney, Jr. (423).....106 Main St.

Fall River
J. Frederick Beckett (167).....49 Purchase St.
Myer Markell (165).....56 N. Main St.
Everett N. Slade (53).....57 N. Main St.

Lowell
John C. Percival (233).....24 Merrimack St.

Somerville
Harry A. Gilbert (650).....381 Broadway

Springfield
Henry M. Clark (287).....100 Broadway
Bion T. Wheeler (339).....1562 Main St.

Worcester
Francis S. Bailey (524).....2 Foster St.
F. Everett Cole (556).....5 Pleasant St.
Charles A. Kabley (501).....340 Main St.
Maurice F. Reidy (8).....2 Foster St.

MICHIGAN

Ann Arbor
Louis C. Andrews (653).....Ann Arbor Tr. Bldg.
Edward M. Couper (654)....204 State Savings Bk. Bldg.

Detroit
Judson Bradway (392).....533 Majestic Bldg.
Matthew Carey (389).....2149 Union Guardian Bldg.
George W. Drennan (358).....617 Penobscot Bldg.
Guy S. Greene (394).....300 Lafayette Bldg.
Donald D. James (539).....700 Penobscot Bldg.
Henry N. Johnson (390).....300 Penobscot Bldg.
Albert D. MacRae (540).....Union Guardian Bldg.
Arthur A. May (686).....950 Nat. Bk. Bldg.
Alfred W. Palmer (312).....1920 Union Guardian Bldg.
Edmund T. Paterson (385).....3050 E. Grand Blvd.
Leonard P. Reaume (393).....2150 Buhl Bldg.
George C. Sexauer (395).....2150 Buhl Bldg.
William W. Tanney (434).....9061 W. Outer Dr.
Ward S. Van Deusen (665).....705 Fidelity Bldg.
Clarence S. Vaughn (422).....2103 First Nat. Bk. Bldg.
Carl S. Wells (391).....2706 Eaton Tower

Flint
Gerald F. Healy (604).....611 Genesee Bk. Bldg.

Grand Rapids
Isaac R. Blandford (234).....105 Federal Square Bldg.
Leon T. Closterhouse (247).....Central Bk.
John Garfield Emery (304).....400 Central Bk. Bldg.
Harry J. Fuller (235).....The Michigan Tr. Co.
Walter S. Palmer (193).....104 Federal Sq. Bldg.
Arent Van Stensel (248).....701 Peoples Nat. Bk. Bldg.
Charles H. Warden (229).920 Grand Rapids Nat. Bk. Bldg.

Jackson
Henry H. Lammers (557).....508 Dwight Bldg.

Lansing
Edward G. Hacker (291).....221½ W. Washtenaw St.

Pontiac
Paul A. Kern (134).....31 Oakland Ave.

MINNESOTA

Duluth
Richard W. Northrup (379).....600 Torrey Bldg.

Minneapolis
Norman L. Newhall (32).....519 Marquette Ave.
Edwin L. Somerville (30).....519 Metropolitan Bk. Bldg.
J. Frederick Sutherland (331).....131 S. Seventh St.

MISSISSIPPI

Jackson
J. O. Manning (299).....3012 N. State St.

MISSOURI

Clayton
Gunther Meier (319).....24 N. Meramec Ave.

Joplin
Rolla E. Stephens (264).....711 Virginia Ave.

Kansas City
George M. Bliss (360).....17 E. Tenth St.
Thomas Burtch (666).....F.H.A.
C. F. Curry (345).....921 Baltimore Ave.
Ward C. Gifford (667).....709 Nat. Fidelity Life Bldg.
Herbert B. Patt (553).....417 R. A. Long Bldg.
E. F. Pierson (289).....311 Commerce Bldg.

St. Louis
W. C. Bernard (91).....412 City Hall
William W. Butts (93).....410 Wainwright Bldg.
Herbert O. Byrd (302).....818 Chestnut St.
Charles J. Daly (94).....801 Chestnut St.
Otto J. Dickmann (225).....804 Chestnut St.
Chester A. Dougherty (249).....109 N. Seventh St.
J. Gregory Driscoll (528).....1501 Locust St.
John H. Farish (201).....713 Chestnut St.
Grover Godwin (418).....1796 Arcade Bldg.
Joseph W. Hannauer (15).....811 Chestnut St.
Alfred B. Kissack (525).....915 Olive St.
Curt C. Mack (449).....F.H.A.
Francis A. Reardon (668).....111 N. Tenth St.
Monroe H. Rodemyer (218).....109 N. Eighth St.
N. S. Wood (131).....709 Chestnut St.

NEBRASKA

Lincoln
C. C. Kimball (381).....Stuart Bldg.
W. B. Romans (669).....2841 Rathbone Rd.

Omaha
Lewis C. Sholes (23)..Care of County Assessor, Court House
Clinton B. Stuht (33).....Aquila Court Bldg.

NEW JERSEY

Atlantic City
Maurice A. Kelley (325).....20 S. Tennessee Ave.

Bayonne
George Seymour (670).....9 W. Eighth St.

Butler
Frank B. Fay, Jr. (171).....Fayson Lake

Camden
Ralph D. Baker (60).....924 Broadway
William W. Chalmers (63).....645 Market St.
J. William Markeim (86).....645 Market St.
Abraham J. Rosenfeld (213).....300 Broadway
Leon E. Todd (340).....2623 Westfield Ave.
Philip Zinman (95).....643 Market St.

East Orange
Frank H. Taylor (6).....520 Main St.
Harry A. Taylor (108).....520 Main St.

Elizabeth
John P. Gloeckner (655).....1143 E. Jersey St.
John K. Leeds (99).....286 N. Broad St.
B. B. Miller (58).....215 Broad St.
Burton Thompson (43).....18 W. Jersey St.
Max Tieger (112).....207 Broad St.

Jersey City
Percy A. Gaddis (22).....30 Journal Sq. Bldg.
D. E. C. Somers (175).....700 Bergen Ave.
R. E. Thompson (419).....Centl. R. R. of N. J. Term.

Linden
John Fedor (65).....540 S. Wood Ave.

Maplewood
Gilbert N. Swett (561).....Depot Plaza

Newark
Murray Apfelbaum (38).....17 William St.
John J. Berry (56).....982 Broad St.
George E. Dugan (236).....18 Washington Pl.
Charles F. Evans (572).....782 S. 19th St.
Jos. L. Feibleman (66).....17 Academy St.
George Goldstein (413).....810 Broad St.
Franklin Hannoch (49).....14 Park Pl.
Louis Herman (70).....60 Park Pl.
Charles Frederick Kraemer (366).....776 Broad St.
Rudolph Kruger (516).....11 Hill St.
John A. Linnett (85).....46 Clinton St.
E. J. Maier (75).....187 Market St.
Joseph L. Pitman (661).....60 Park Pl.
Joel L. Schlesinger (87).....31 Clinton St.
Harry J. Stevens (200).....478 Central Ave.

New Brunswick
Jas. A. O'Connell (186).....392 George St.

Newton
A. N. Lockwood (433).....17 Main St.

Ocean City
Elmer Jackson Pearl (330).....810 Ocean Ave.

Paterson
Joseph R. Lambert (443).....20-22 Church St.

Perth Amboy
Morris Goldfarb (109).....265 Madison Ave.

Plainfield
Milton Brown (662).....131 North Ave.
William G. McDowell (446).....152 North Ave.

Ridgewood
Frederick A. Tetor (364).....1 E. Ridgewood Ave.
Samuel S. Walstrum (106).....Ridgewood

Rutherford
Charles A. Van Winkle (113).....1 & 2 Station Sq.
Theodore Van Winkle (117).....1 & 2 Station Sq.

West End
David Vogel (368).....211 Cedar Ave.

NEW MEXICO

Albuquerque
Joseph P. Deasy (377).....1106 Virginia Blvd.

NEW YORK

Buffalo
A. P. Allingham (3).....158 Pearl St.
P. V. Bowen (141).....1006 Ellicott Sq.
Walter W. Cohn (81).....155 Pearl St.
Cuthbert E. Reeves (19).....Liberty Bank Bldg.

Mechanicville
Franz H. Moak (40).....37 N. Main St.

Metropolitan City of New York

Borough of Bronx
Herman A. Acker (279).....318 E. Kingsbridge Rd.
Amedeo Giordano (515).....2488 Grand Concourse
Samuel E. McRickard (292).....400 E. Fordham Rd.

Borough of Brooklyn
Stephen F. Barrera (133).....191 Joralemon St.
George Baur (170).....2609 Clarendon Rd.
Charles D. Behrens (635).....190 Montague St.
Joseph William Catharine (503).....149 Pierrepont St.
James P. Clark (550).....478 Graham Ave.
James B. Fisher (57).....160 Remsen St.
George H. Gray (17).....310 Ashland Pl.
Bernard F. Hogan (29).....451 Fifth Ave.
Arthur J. Horton (183).....6904 Fourth Ave.
George S. Horton (184).....59 Lafayette Ave.
James F. Matthews (76).....186 Joralemon St.
Frank M. McCurdy (39).....44 Court St.
M. C. O'Brien (190).....798 Nostrand Ave.
Charles Partridge (92).....397 Flatbush Ave.
Lewis H. Pounds (128).....32 Court St.
Milton T. VanderVeer (660).....51 Willoughby St.
R. W. Walden (89).....141 Montague St.
Alfred R. Wittich (649).....99 Pennsylvania Ave.

Borough of Manhattan
Robert H. Armstrong (562).....485 Madison Ave.
Edward J. Crawford (373).....225 Broadway
Dalton Granger De Witt (315).....22 W. 48th St.
Sam W. Florence (206).....2700 Woolworth Bldg.
Howard Geoghegan (512).....51 Chambers St.
A. N. Gitterman (45).....45 E. 49th St.
James A. Glynn, Jr. (671).....100 E. 42nd St.
Bracton Goldstone (68).....10 E. 40th St.
George Grotz, Jr. (573).....100 E. 42nd St.
George M. Halk, Jr. (582).....742 Lexington Ave.
Frank D. Hall (159).....393 Seventh Ave.
John R. Hoyt (290).....17 E. 42nd St.
Robert Huntley (214).....67 Liberty St.
S. E. Kazdin (269).....70 Pine St.
Harry K. Keller (563).....522 Fifth Ave.
William MacRossie (598).....6 E. 46th St.
John J. McCormick (445).....51 Chambers St.
Thomas E. McSherry (636).....51 Chambers St.
Clarence C. Merritt (357).....50 E. 42nd St.
Charles W. Morrison (270).....270 Madison Ave.
James R. Murphy (437).....217 Broadway
Henry Musch, Jr. (157).....270 Broadway
Charles A. Nehring (521).....1441 St. Nicholas Ave.
Charles J. Pladwell (542).....522 Fifth Ave.
Edmund J. Port (688).....17 E. 42nd St.
George Stanley Potter (656).....270 Madison Ave.
J. Kingsley Powell (77).....34 Nassau St.
Andrew B. Rankin (625).....160 Broadway
Irving I. Rosenbaum (179).....384 Broadway
I. Lincoln Seide (526).....220 Broadway
Maurice R. Spear (543).....225 Fifth Ave.
Eldridge C. Thompson (583).....34 Nassau Street
John C. Tredwell (574).....Rm. 1501, 393 Seventh Ave.
Wallace Whittington True (647).....393 Seventh Ave.
David Vogel (368).....150 Broadway

Borough of Queens
Armand Brunswick (327).....90-26 161st St., Jamaica
William F. MacDermott (198).....89-70 162nd St., Jamaica
Axel J. Swenson (272).....41-27 29th St., Long Island City

Nassau County, Long Island
Richard T. Childs (273).....222 Front St., Mineola
George M. Halk, Jr., (582).....
.....36 Wachusetts St., Rockville Centre

Westchester County
Robert A. Anderson (259).....34 E. First St., Mt. Vernon
Stephen L. Angell (220).....30 E. Parkway, Scarsdale
Vernon N. Bailey (322).....175 Main St., White Plains
Edward C. Heald (222).....20 S. Broadway, Yonkers
Edward H. Hufnagel (250).....10 S. Fourth Ave., Mt. Vernon
Albert W. Lockyer (294).....Depot Plaza, White Plains
Paul Wegener (90).....144 S. Broadway, Yonkers
Edward M. West (305).....1 Martine Ave., White Plains

Rochester
Warren W. Allen (637).....Lincoln-Alliance Bk. & Tr. Co.
Linus S. Appleby (689).....183 Main St., E.
Abraham Berghash (219).....130 Clinton Ave., S.

Schenectady
Wm. Garner Bee (415).....277 State St.

Syracuse
James H. Dawley (333).....121 E. Genesee St.
Edward Eagan (271).....204 Starrett-Syracuse Bldg.

NORTH CAROLINA

Charlotte
S. T. Henderson (20).....P. O. Box 1128

OHIO

Akron
Charles S. Jenkins (564).....659 Schiller Ave.
John C. Kyle (102).....520 S. Firestone Blvd.
E. L. Marting (672).....27 S. High St.
A. R. Ritzman (544).....1099 S. Main St.
Eugene K. Sheffield (575).....651 Central Tower Bldg.
Fred E. Smith (298).....608 Broad Blvd., Cuyahoga Falls
W. F. Voges (105).....1109 S. Main St.

Canton
Mark Hambleton (146).....417 Mellett Bldg.
A. Ray Walters (439).....524 Renkert Bldg.

Cincinnati
Henry B. Bunker (545).....S. E. Cor. Fourth & Vine Sts.
Howard R. Burgess (176).....304 Neave Bldg.
Fred Droege, Jr. (154).....410 First Nat. Bk. Bldg.
J. George Ege (335).....3040 Urwiler Ave.
James W. Farrell (149).....S. W. Cor. Fifth & Main Sts.
James J. Grogan (180).....S. W. Cor. Fifth & Main Sts.
Albert J. Mayer (204).....1515 First Nat. Bk. Bldg.
P. Lincoln Mitchell (181).....S. W. Cor. Fifth & Main Sts.
Michael J. O'Byrne (429).....3270 Menlo Ave., Hyde Park
Russell Price (152).....S. W. Cor. Fifth & Main Sts.
Walter S. Schmidt (111).....S. W. Cor. Fifth & Main Sts.
Lewis R. Smith (139).....409 American Bldg.
John B. Spilker (155).....410 First Nat. Bk. Bldg.

Cleveland
Talmage D. Auble (262).....15509 Madison Ave.
Robert F. Berwald (300).....1220 Williamson Bldg.
Ben B. Beyer (34).....1425 Williamson Bldg.
James G. Bingham (328).....1227 Williamson Bldg.
Raymond T. Cragin (282).....825 Nat. City Bk. Bldg.
W. J. Crawford, Jr. (323).....720 Cuyahoga Bldg.
Victor J. Free (431).....P. O. Box 5876
Walter R. Granger (285).....310 Hippodrome Bldg.
Joseph J. Haas (164).....200 Marshall Bldg.
Joseph B. Hall (2).....5700 Truscon Ave.
Harry D. Knowlton (673).....920 Guardian Bldg.
Joseph Laronge (103).....600 Union Tr. Bldg.
Edwin H. McIntosh (283).....325 Society for Savings Bldg.
Warren L. Morris (251).....420 Nat. City Bk. Bldg.
C. A. Mullenix (605).....620 Hickox Bldg.
E. L. Ostendorf (14).....610 Nat. City Bk. Bldg.
Carl A. Palmer (286).....850 Euclid Ave.
L. R. Reifsnider (638).....944 Union Tr. Bldg.
Max J. Rudolph (281).....1105 Chester Ave.
Carlton Schultz (37).....The B. F. Keith Bldg.
Alexander S. Taylor (142).....1930 Union Tr. Bldg.
V. C. Taylor, II (153).....1930 Union Tr. Bldg.
Wm. J. Van Aken (284).....1715 Euclid Ave.

Columbus
Preston Cooke (551).....8 E. Broad St.
Charles F. Johnson (412).....8 E. Long St.

Dayton
Rufus Lisle (438).....704 Harries Bldg.

Geneva
J. Earl Miller (267).....Miller Bldg.

Massillon
Charles N. Hostetter (329).....716 Lincoln Way, E.

Springfield
H. S. Kissell (5).....927 First Nat. Bk. Bldg.

Toledo
Claude A. Campbell (211).....707 Ohio Bk. Bldg.
Edmund T. Collins (522).....708 Jefferson Ave.
Geo. P. Crosby (252).....413 Madison Ave.
Howard Etchen (136).....725 Adams St.
Donald F. Hiett (396).....622 Jefferson Ave.
John R. Schackne (529).....507 Produce Exchange Bldg.

OKLAHOMA

Tulsa
J. M. Allen (546).....Beacon Bldg.
Clyde A. King (432).....520 Beacon Bldg.

OREGON

Portland
Arthur C. Callan (674).....320 Oregon Bldg.
Merle G. Campbell (675).....511 Corbett Bldg.
Leroy D. Draper (676).....236 S. W. Broadway
James R. Haight (677).....408 S. W. Fourth Ave.
Henry Edward Reed (678).....805 Title & Tr. Bldg.
Nat C. Soule (679).....1112 Porter Bldg.
A. G. Teepe (690).....3114 N. E. Sandy Blvd.
Donald L. Woodward (680).....236 S. W. Broadway

PENNSYLVANIA

Bethlehem
Wm. C. Bader (163).....214 Odd Fellows Bldg.

Erie
Carl G. Wright (361).....204 Marine Bk. Bldg.

Harrisburg
Evan J. Miller (148).....213 Locust St.
L. D. Scranton (100).....219 Walnut St.

Lancaster
Harry W. Butts (114).....24 E. Orange St.

Lansdowne
W. Raymond Evans (118).....19 N. Lansdowne Ave.

Lewistown
E. Dale Fisher (520).....136 Valley St.

Philadelphia
Phillip N. Arnold (174).....123 S. Broad St.
Boyd T. Barnard (237).....Lincoln-Liberty Bldg.
Frederick A. Bond (380).....5433 Baltimore Ave.
E. L. Carlson (62).....The Parkway at Fairmont Ave.
William W. Chalmers (63).....1424 Walnut St.
C. Harris Colehower (145).....5942 Chestnut St.
Frank P. Felton, Jr. (268).....914 Lincoln-Liberty Bldg.
Lionel Friedmann (565).....N.E. Cor. 15th & Locust Sts.
Joseph J. Greenberg (606).....Architects Bldg.
Samuel T. Hall (257).....1500 Locust St.
Roy A. Heymann (362).....213 S. Broad St.
C. Harry Johnson (238).....Packard Bldg.
S. Craig Kane, Jr. (253).....502 Land Title Bldg.
John G. Keck (607).....1622 N. Broad St.
Philip W. Kniskern (1).....1604 Walnut St.
J. William Markeim (86).....1424 Walnut St.
Frank H. Massey (549).....S. E. Cor. 13th & Green Sts.
Maurice R. Massey (276).....S. E. Cor. 13th & Green Sts.
J. Howard McLaughlin (372).....5512 Florence Ave.
William I. Mirkil (226).....1500 Walnut St.
Robert J. Nash (254).....1214 Locust St.
Glyndon Priestman (420).....18 W. Chelten Ave.
Richard J. Seltzer (255).....15th & Locust Sts.
J. Willison Smith (239).....100 S. Broad St.
Martin Stotz (55).....514 Land Title Bldg.
Joseph W. Widing (648).....100 S. Broad St.
Philip O. Widing (639).....1604 Walnut St.
Ambrose J. Winder (207).....1420 Walnut St.

Pittsburgh
Roy R. Cappe (608).....341 Fourth Ave.
H. Chidester (609).....618 Frick Bldg.
James W. Cotts (610).....307 Fourth Ave.
James W. Cree, Jr. (13).....211 Fourth Ave.
E. Herbert Gilg (552).....6605 Ridgeville St.
Fred J. Hettling (611).....440 Fourth Ave.
Carl E. Koch (612).....20 Wabash Ave., West End
R. A. MacDowell (613).....345 Fourth Ave.
William Maisch (616).....307 Fourth Ave.
J. F. McClurg (614).....312 Fourth Ave.
R. L. McKallip (615).....411 Seventh Ave.
Thomas C. McMahon (640).....731 Grant Bldg.
L. W. Monteverde (641).....427 Fourth Ave.
Albert A. Murrer (584).....614 Plaza Bldg.
S. L. Seemann (657).....341 Fourth Ave.
Frank T. Trohaugh (617).....514 Oliver Bldg.

Scranton
C. G. Chappell (376).....Bliss Davis Bldg.

Wilkes-Barre
C. A. Leighton (135).....Deposit & Savings Bk. Bldg.
Edward L. Lewith (227).....428 Miners Bk. Bldg.

RHODE ISLAND

Providence
Hal Forrester Coombs (172).....211 Waterman St.
James Devine (130).....801 New Industrial Tr. Bldg.
Richard A. Hurley (513).....723 Hospital Tr. Bldg.

TENNESSEE

Memphis
Elbert A. Cheek (547).....801-6 Columbian Mutual Tower
George W. Person (320).....
.....Second Floor, Manhattan Bk. Bldg.
W. H. Prince (374).....1816 Poplar Ave.

Nashville
J. W. Denis (140).....535 Church St.
J. W. Graham (83).....930 Kirkwood

Amarillo — **TEXAS**
Robert Ricks (566) ..... Bivins Bldg.

Beaumont
J. S. Edwards (444) ..... San Jacinto Bldg.

Corpus Christi
Jay E. Adams (626) ..... 205 Guggenheim & Cohen Bldg.

Dallas
Henry S. Miller (277) ..... 405 Southland Life Bldg.
Lawrence Miller (386) ..... 2729 South Blvd.
John W. Pat Murphy (384) ..... 1420 Commerce St.

Fort Worth
Meredith R. Carb (354) ..... 403 First Nat. Bk. Bldg.

Houston
W. G. Burchfield (274) ..... 803 Second Nat. Bk. Bldg.
L. A. Casey (353) ..... Esperson Bldg.
A. R. Foster (619) ..... 1525 Marshall St.
Meredith H. James (681) ..... Esperson Bldg.

San Antonio
Paul W. Adams (355) ..... Builders Exchange Bldg.
A. H. Cadwallader, Jr. (352) .. 920 Nix Professional Bldg.
C. Ray Davis (618) ..... 716 Travis Bldg.
Claris M. Elmore (356) ..... 200 Betty Jean St.
Harold W. Keller (620) ..... 714 Travis Bldg.
Reginald W. Patton (317) ..... 621 Travis Bldg.

Salt Lake City — **UTAH**
Werner Kiepe (567) ..... 139 S. Second St., E.

Newport News — **VIRGINIA**
Emanuel E. Falk (548) ..... 117 26th St.

Richmond
John W. Bates (240) ..... 723 E. Main St.
Henry S. Raab (260) ..... 710 E. Main St.
J. Guthrie Smith (144) ..... 329 Clovelly Rd.
Morton G. Thalhimer (221) ..... 1013 E. Main St.

Bellingham — **WASHINGTON**
E. A. Wheeler (682) ..... 1411 Commercial St.

Seattle
Charles P. Burnett (378) ..... 14410 Third St., N. W.
Arthur E. Burr (576) ..... 623 Second Ave.
Ralph H. Davis (577) ..... 400 Skinner Bldg.
Leonard Downie (296) ..... Seattle
Wm. A. Eastman (307) ..... 414 University St.
R. C. Erskine (578) ..... 2201 Northern Life Tower
Lloyd P. Hayworth (683) ..... 208 Columbia St.
Ogden Johnson (658) ..... 400 Skinner Bldg.
Walter G. McLean (346) ..... 1108 Third Ave.
J. C. McQuigg (344) ..... 1317 Boven Ave.
Vincent D. Miller (579) ..... 337 Henry Bldg.
Ben J. Smith (343) ..... 1222 Second Ave.
J. H. Sparkman (349) ..... 1108 Third Ave.
Roy F. Taylor (659) ..... Seattle Tr. & Savings Bk.
Cecil S. Van Voris (369) ..... F.H.A., 1817 Exchange Bldg.
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22 West Monroe Street, Chicago, Illinois

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACTS OF CONGRESS OF AUGUST 24, 1912, AND MARCH 3, 1933

Of The Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards published quarterly at Chicago, Illinois, for October 1, 1938.

State of Illinois } ss.
County of Cook }

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Harry Grant Atkinson, who, having been duly sworn according to law, deposes and says that he is the Managing Editor of The Journal of the American Institute of Real Estate Appraisers and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Act of March 3, 1933, embodied in Section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, American Institute of Real Estate Appraisers, 22 W. Monroe St., Chicago, Ill.; Chairman of the Editorial Board, Thurston Howard Ross, 3465 Knollcrest Ave., Los Angeles, Calif.; Managing Editor, Harry Grant Atkinson, 22 W. Monroe St., Chicago, Ill.; Business Manager, Harry Grant Atkinson, 22 W. Monroe St., Chicago, Ill.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

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3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.) None.

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HARRY GRANT ATKINSON.

Sworn to and subscribed before me this 30th day of September, 1938.
MABEL L. DEYOUNG. (Notary Public)
(My commission expires August 26, 1941.)

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